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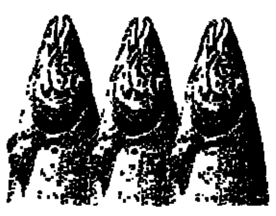

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In the war against aluminium
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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY OCTOBER 20 1994 — D8523A

Former BCCI chief jailed for 11 years over bank fraud

Swaleh Naqvi (left), former chief executive of the Bank of Credit and Commerce International, was sentenced to a jail term of 11 years and three months by a federal court in Washington for his role in the multi-billion-dollar fraud at the collapsed bank closed three years ago by international regulators. He was ordered to pay $255.4m restitution. Page 16

Chrysler's Vietnam venture: US carmaker Chrysler plans a $100m joint venture in Vietnam to build minivans, the first such project since the US economic embargo was lifted earlier this year. Page 16; Vietnam wobbles, Page 6

Top job losses loom at UK Treasury: About one in four of the UK Treasury's senior staff will lose their jobs under sweeping reforms in its structure and operations designed to make it focus on strategic issues determining public spending. Page 16; Treasury wants to hand tasks to SIB, Page 10; Editorial Comment, Page 15

Digital Equipment, US computer manufacturer, reported smaller-than-expected losses for its first fiscal quarter, raising hopes that it would return to profit by mid-1995 after four years of heavy losses. Compaq results, Page 20

Adams ban may end: The UK government is poised to lift within days the exclusion orders banning Gerry Adams, leader of Sinn Féin, the political wing of the IRA, and other prominent Northern Ireland republicans from visiting the British mainland. Page 9

Nokia of Finland, Europe's biggest maker of mobile telephones, reported pre-tax profits of FM2.29bn ($50m) in the first eight months of the year up from FM466m at the same stage last year on the back of continuing heavy demand for handsets and network equipment. Page 17

Oil camp staff shot dead: A Frenchman and a Spaniard have been killed by unidentified gunmen at an oil camp owned by the Sonatrach oil company near Tebessa in eastern Algeria. They were understood to be working for the French oil services company Schlumberger. *Page 6.*

Bonn boiler blast kills 4: Four people were killed and three badly injured when a coal-fired boiler in a Bonn power plant burst during routine maintenance.

Booker's salmon catch: British food group Booker will become the world's largest farmer of Atlantic salmon with its $122.1m agreed bid for Marine Harvest International of the US. Page 17; Lex, Page 16; Attempt to leap to the top, Page 26

US ready to defy Bosnia arms ban: Transatlantic tensions over policy towards former Yugoslavia were fuelled by a White House statement that the US was prepared to defy its allies and take unilateral action to authorise arms supplies to Bosnia. Page 3

Escape for Jumbo: An Ansett Australia 747-300 jumbo jet bound for Japan with 253 passengers crashed during an emergency landing at Sydney international airport when its nose wheel collapsed. No one was seriously injured.

Baghdad bomb blast: A powerful bomb explosion damaged Iraq's Ministry of Religious Affairs in Baghdad, severely injury six people, according to Iraqi television reports.

Corruption probes face inquiry: An official inquiry is to be held into complaints about the behaviour of Milan's anti-corruption magistrates. Two complaints relate to probes into the activities of prime minister Silvio Berlusconi's Fininvest business empire. Page 3

N-plant executive found dead: Vladimir Turusin, a deputy director at the Mayak plant which produces weapons-grade plutonium, has been found dead in the closed Urals city of Ozersk with a crushed skull. The atomic energy ministry said it was not clear whether he had been murdered.

Beijing slows reforms: China is slowing the pace of economic reform while it tries to curb inflation and head off possible social unrest, a World Economic Forum meeting was told. Page 6

Papal book: Pope John Paul's book, *Crossing the Threshold of Faith*, the first by a reigning pontiff, is published in 36 countries today. Proceeds will go to charity.

Russia urged to adopt radical budget

Austere approach aimed at reducing inflation to 1% a month

By John Lloyd in Moscow

Russia's most important economic ministries will today urge the cabinet to adopt a "big bang" approach to fiscal reform, marking a sharp shift away from the previous gradual approach.

The finance ministry and the ministry of the economy are proposing a draft budget aimed at bringing down the level of inflation to 1 per cent a month in the second half of 1995. Cabinet budget discussions start today.

The plan requires the government to cease taking credits from the central bank. It will meet strong opposition from some of the most powerful ministries – including defence, agriculture and energy. However, the finance and economy ministries have broadly agreed the approach, and expect to push it through the cabinet meeting by arguing that the country has no choice.

Mr Alexander Shokhin, deputy prime minister for the economy and one of the architects of the budget, said yesterday that to continue the present policy of gradual reform might mean stabilisation in two or three years – "but it would mean periodic crises like the one we had last week when the rouble fell".

The budget debate comes at a time of heightened tensions between Mr Victor Chernomyrdin, the prime minister, and Mr Boris Yeltsin, the president. On Tuesday, there were rumours that Mr Chernomyrdin had resigned, but he and the government denied this. Mr Shokhin said "there are forces around the government who try to profit from the absence of the prime minister".

Mr Chernomyrdin returned from his Black Sea holiday last night. He will present the budget to a special session of the Russian parliament next Thursday.

According to figures from the finance ministry, the draft budget forecasts an income of Rbs131trln and expenditure of Rbs208trln – that last figure slashed back from around Rbs260trln in earlier drafts. The budget deficit would be around 8.3 per cent of gross domestic product. Mr Shokhin made clear that the success of the new strategy would require strong support from the International Monetary Fund and the World Bank. He said he hoped for loans of some $8bn from the IMF in the form

Continued on Page 16
Editorial Comment, Page 15

Brussels plans law to improve money transfers

By Lionel Barber in Brussels and John Gapper in London

The European Commission yesterday overrode opposition from the banking industry and proposed legislation to make it easier, cheaper and quicker for small businesses to transfer money across borders.

The decision marks the end of a long campaign to persuade European banks to improve their performance in the transfer of small-value payments – those of under Ecu10,000 ($12,588) – through self-regulation.

The Commission still hopes banks will enact the measures voluntarily, although it is setting a deadline of December 1996 for EU ministers to pass the legislation.

The proposals from Brussels would ban double charging – cases where banks charge customers for receiving cash as well as for sending it – and require banks to provide detailed, written information on services to customers.

Money would have to be credited to the recipient's account within six working days, unless the customer and originating bank agree it can take longer. A study this year showed some 85 per cent of transfers already met this target.

Mr Raniero Vanni D'Archirafi, commissioner responsible for the single market, said yesterday the Commission had little choice but to legislate because banks had not done enough to reduce the costs of cross-border payments.

There are 170m of these transfers a year and the number may triple by 2000, he said. It was vital to reduce costs for small businesses operating internationally and to show the European public that the single market was working.

However, the European Banking Federation said action had been taken on the basis of a "flawed" study carried out this year for the Commission. It said smaller banks were likely to stop offering services if legislation

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The long wait and high cost of a small transfer, Page 2
Editorial Comment, Page 15

Gaza and West Bank sealed after Hamas attack on Tel Aviv bus

Israel firm on peace despite blast

By Julian Ozanne in Tel Aviv

Rush-hour carnage: Israeli police inspect the wreckage of the Tel Aviv commuter bus which was ripped apart by a bomb blast — Picture: Reuter

Israel insisted that the Middle East peace process would not be halted by a suicide bomber's attack on a commuter bus in Tel Aviv yesterday that left at least 22 people dead and 42 wounded.

The 9am rush-hour attack by Hamas, which opposes peace with Israel, suggested that the militant Islamic group is intensifying its campaign of violence. But Israeli officials said negotiations with the Palestine Liberation Organisation would continue.

US President Bill Clinton said the bombing was "an outrage against the conscience of the world" and Mr Yassir Arafat, the PLO chairman, condemned the attack and offered to help track down those responsible.

Mr Arafat's statement highlighted the growing tension between the PLO and Hamas, which has mounted an open challenge to his authority and vowed to "set Gaza ablaze" if the PLO continued arresting its members.

Israel immediately sealed off the Gaza Strip and West Bank, preventing tens of thousands of Palestinians travelling to their jobs in Israel.

Mr Yitzhak Rabin, Israeli prime minister, cut short a visit to Britain, flew back to Israel and convened an emergency security meeting.

However, Mr Ephraim Sneh, the health minister, said the PLO peace talks would not be halted: "We will continue the day and night war against terrorism. We will fight them and defeat them and kill them, but we are not going to grant Hamas the political victory of stopping the peace process."

The blast came two days after the initialling of a peace treaty between Israel and Jordan, which had raised hopes that political and economic barriers were falling in the Middle East. A signing ceremony is due to be held next week, and Mr Clinton has said that he will attend.

Israel's opposition right-wing political parties furiously criticised the government in parliament. Mr Benjamin Netanyahu, Likud party leader, said Mr Rabin was responsible for allowing Gaza to become "a terrorist haven to prepare murderous deeds". He demanded the immediate construction of a fence around Gaza.

Hamas strikes new level of terror in Israel ....Page 7

Hamas, which last week kidnapped and killed a 19-year-old Israeli soldier, warned of more attacks and said yesterday's bombing had "lifted the spirits of the Palestinian people".

The bomb blast created carnage and destruction in one of the busiest shopping streets in cosmopolitan Tel Aviv, known for its cafes and boutiques. Bodies, severed limbs, shredded clothes and possessions were strewn across the street near the city's main shopping mall and crushed under the smoking wreckage of the commuter bus.

Witnesses said some of the dead had been sitting at outdoor cafes sipping coffee or walking along the street. The bomb threw up flames 40 feet high and recalled missile attacks by Iraq during the Gulf War.

"There was a huge blast and I was lifted off my feet," said Sarah Pal, in a second storey apartment opposite the blast. "There were pieces of glass flying across the room and smoke everywhere and at first I though it was a Scud."

Angry residents gathered, chanting anti-Arab and anti-government slogans. "We don't want Arabs to come to our city," said Daniel Minis. "Gaza must be closed and Rabin should get out."

In a sign of the deep sense of national tragedy Israelis, for the first time, hung black flags from their balconies – a mourning ritual regularly displayed by Palestinians. Thousands of volunteers overwhelmed emergency blood banks set up after the bombing.

Prof Yona Alexander, a terrorism expert based in Tel Aviv, warned that the "worst terror was yet to come". He said yesterday's attack had boosted the confidence of Hamas. It had underscored the terror group's message that it had "a long arm and could decide where and when it is going to strike".

US mortgage group to raise $20bn in global bond markets

By Richard Lapper in London

The US Federal National Mortgage Association yesterday announced its intention to borrow $20bn on the international capital markets, launching what it claimed was the "largest global funded programme in the world".

The association, better known as Fannie Mae, is the largest supplier of funds for American home mortgages and one of the world's biggest issuers of long-term debt. It has borrowed $100bn since the end of 1992, and is seeking to fund expansion of its $214bn portfolio of mortgages.

The company made its debut in global bond markets four months ago when it issued $1.5bn of ten-year global debentures, 60 per cent of which were bought up by international investors. Lehman Brothers, the US investment bank, is arranging the new facility, with ten other international banks involved in the the issue.

Fannie Mae is a shareholder-owned company chartered by the US Congress. Funding programmes approaching this scale are normally the province of sovereign or supra-national borrowers, such as the World Bank.

Mr James Johnson, Fannie Mae chairman, said the programme would tap "important new markets abroad". Fannie Mae did not detail the amounts or currencies of the maturities it plans to issue. But it clearly expects to reduce its borrowing costs.

Funds obtained under the global bond issued in the summer were obtained for five basis points less than would have been the case in the US market, said Ms Linda Knight, Fannie Mae senior vice-president and treasurer. A basis point is one hundredth of a percentage point.

The programme will give Fannie Mae access to international clearing systems to allow it to trade and settle securities in its own time zone.

Fannie Mae has a triple A rating from credit rating agencies. Since 1988 it has built up a domestic market in so-called "callable" bonds – which can be redeemed before maturity.

Another US mortgage provider, the Federal Home Loan Mortgage Corporation, known as Freddie Mac, launched its own $1.5bn global issue in July.

■ STOCK MARKET INDICES

FT-SE 100:	3,060.8	(-24.5)
Yield	4.12	
FT-SE Eurotrack 100	1,322.21	(-11.31)
FT-SE-A All-Share	1,524.39	(-0.7%)
Nikkei	19,868.87	(-123.53)
New York lunchtime:		
Dow Jones Ind Ave	3,932.34	(+14.8)
S&P Composite	468.74	(+2.08)

■ US LUNCHTIME RATES

Federal Funds:	4 11/16%
3-mo Treas Bills: Yld	5.03%
Long Bond	95 1/32
Yield	7.879%

■ LONDON MONEY

3-mo Interbank	5 15/32%	(5 7/16%)
Liffe long gilt future:	Dec 101 13/32	(Dec102)

■ NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$16.25	(16.19)

■ Gold

New York Comex (Dec)	$392.3	(391.3)
London	$391.0	(389.5)

■ STERLING

New York lunchtime:		
$	1.6183	
London:		
$	1.6188	(1.6154)
DM	2.4296	(2.4235)
FFr	8.3381	(8.3137)
SFr	2.0138	(2.0136)
Y	157.267	(157.6)
£ Index	80.2	(80.0)

■ DOLLAR

New York lunchtime:		
DM	1.50325	
FFr	5.1625	
SFr	1.247	
Y	97.365	
London:		
DM	1.5009	(1.5003)
FFr	5.1508	(5.1465)
SFr	1.244	(1.2465)
Y	97.15	(97.685)
$ Index	61.0	(61.1)

Tokyo close Y 97.61

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£60.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (m'land)	Es225	Turkey	L30000
Germany	DM3.60	Lux	LFr65			UAE	Dh12.00

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NEWS: EUROPE

Proposal would link EU with its North African and Mideast neighbours

Brussels urges wider trade zone

By David Gardner in Brussels

The European Commission yesterday called on the EU to create a Euro-Mediterranean Economic Area with its North African and Middle Eastern neighbours, to establish the biggest free trade zone in the world, and help stabilise the Union's southern and eastern flanks.

Brussels wants the EU to devote aid worth Ecu5.5bn (£4.3bn) in 1995-99 to lay the ground for this project, and raise Mediterranean policy to near the same strategic importance as east and central Europe, which should get around Ecu7bn over the same period. The EU's eastern neighbours currently receive nearly five times more aid than the states to its south and east, officials say.

June's summit of EU leaders in Corfu invited the Commission to come up with a new "southern" strategy, which Brussels now hopes will be endorsed by December's Essen summit.

Mr Manuel Marin, commissioner in charge of relations with the EU's Mediterranean neighbours, said that "in broad terms, what we would be offering is something like the EEA" – the 1993 European Economic Area free trade zone between the EU and the European Free Trade Association (Efta).

The main difference would be that whereas four of the seven members of Efta – Austria, Finland, Sweden and Norway – are poised to enter the Union next year, membership would not be on offer to Euro-Med partners.

The target countries are the Maghreb and Mashraq states (Morocco, Tunisia, Algeria, Libya; and Egypt, Jordan, Syria, Lebanon) and Israel. Relations with Cyprus, Malta and Turkey remain inside the context of eventual membership negotiations.

The Commission argues that it is essential to "rebalance" the EU's relationships with its neighbours, now weighted towards bringing six central European states into the Union around the end of the century. Germany, in particular, has used its current presidency of the EU to put in place the building blocks of this "eastern" strategy.

This was underlined by yesterday's visit to Brussels by Mr Laszlo Kovacs, Hungary's foreign minister, who underlined his government's wish for full Hungarian membership of the Union "before the end of the century," with accession talks starting in 1997.

In Mr Marin's view, "the only country which can launch a realistic attempt to rebalance Europe's relations with its neighbours is Germany; we think the German presidency understands that."

France's EU presidency in the first half of next year is expected to host a Euro-Med ministerial conference to begin establishing the economic modernisation, trade access, and mutual security priorities of the new policy. The French, moreover, will be succeeded by two Mediterranean presidencies of the EU – Spain and Italy – under whose stewardship the strategy should be finalised.

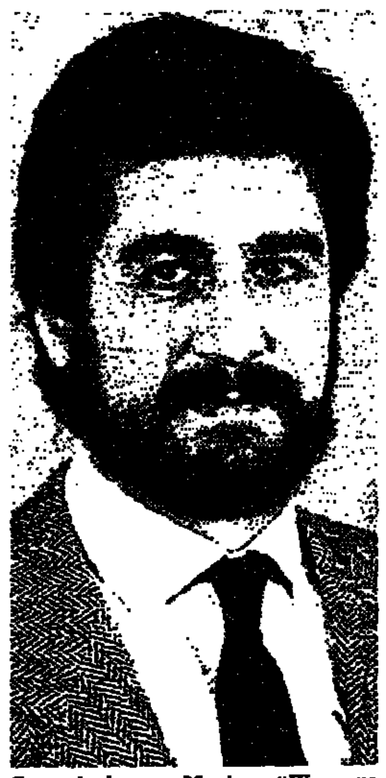
A full free trade zone, senior Commission officials said, would take 10-15 years to establish, by which time up to 40 countries encompassing 800m people could be involved. Officials say the transformed prospects for Middle East peace, plus growing instability and migratory pressure in the Maghreb, have prodded the EU in equal measure to review its policy.

They add that any substantial boost in aid will inevitably be tied to commitments from the EU's southern neighbours to help control illegal migrants and illicit drugs coming into Union territory.

"Many countries will insist that if we're going to provide around Ecu5bn then drugs and immigration control must have a central part, without doubt," Mr Marin said.

The commissioner also argues that it is important to move now, before southern EU member states become over-nervous about next year's enlargement to the north, and the planned expansion to the east, and the consequent shift in the Union's centre of political gravity

Southern EU states prefer aid to trade concessions for North Africa and the Middle East, while their richer northern partners take the opposite view. Mr Marin observes, arguing for a synthesis as "an anti-body to North-South disintegration".



Commissioner Marin: "We are offering something like the EEA"

The long wait and high cost of a small transfer

By John Gapper in London and Lionel Barber in Brussels

Few services offered by European banks have been of as low quality as their transfers of small sums of cash across borders. As the European Commission recognised in proposing legislation yesterday, it not only costs a lot to send cash, but takes a long time.

Money transfers are traditionally done by banks sending money to "correspondent" banks in the destination country. The correspondent bank transfers it to the appropriate account – usually at another bank – via the automated clearing house which is used for domestic payment transfers.

In some countries, this can take an extremely long time. In Italy in the 1980s, foreign banks were told that it would take a standard 28 days to clear a payment. Although standards have improved markedly, some banks are happy to delay the clearing of cash to gain interest.

Banks had little incentive to compete for such business – and raise standards – until recently. There are relatively few transfers of small sums – defined as up to Ecu10,000 (£7,870) – within the EU. They account for only 0.8 per cent of total domestic payments in the UK, and 4 per cent in Belgium.

The view among most banks was, as Mr Tim Sweeney, director general of the British Bankers Association, put it this week, "that old British response: 'there's no call for it, guv'". This meant that banks displayed little urgency either in making payments or raising standards.

Some of the results could be seen in the study carried out for the European Commission earlier this year which found that banks charged an average Ecu25.4 to make an urgent transfer of Ecu100, and the money took an average of 4.15 working days to reach the destination bank and be cleared.

The study found widespread double charging – the receiver of the cash is charged as well as the sender. This occurred in 36 per cent of urgent transfers. Customers were also given inadequate information, with only 21 per cent of branches giving an accurate guide to transfer times.

This led to the commission losing patience after a three-year effort to raise standards. The decision to proceed with legislative action is a setback for Mrs Christiane Scrivener, commissioner for consumer affairs, who argued that a voluntary code of conduct would be more suitable.

But Mr Raniero Vanni D'Archirafi, commissioner responsible for the single market, argued successfully that legislation was a necessary step to help consumers and small businesses to take full advantage of the 1992 programme for the free movement of goods, services, capital and people.

The proposed EU directive must be approved by a qualified majority of EU ministers, by the end of 1996 at the latest. Customers will have to have accounts credited with the sum transferred in six days; there must be full disclosure of costs; and double-charging will be banned.

European banks mounted a strong lobbying campaign against legislation. Ms Diane Iannucci, the official responsible for payment systems at the European Banking Federation, yesterday argued that small banks might withdraw services and that efforts by large banks to raise standards could be disrupted.

Despite the results of the commission's study – which the federation says are flawed – there is evidence that banks are at least starting to improve standards. Several partnerships have been formed among European banks in the past two years to provide more efficient transfers.

These include a partnership between National Westminster Bank of the UK, Commerzbank of Germany and Societé Generale of France; and another among Lloyds Bank of the UK, Banco Bilbao Vizcaya of Spain and Crédit Agricole of France. Girobanks and Co-operative banks have also formed payment links.

The commercial bank effort which has gone furthest is the Inter Bank On-line System (Ibos) developed jointly by Royal Bank of Scotland and Banco Santander, which offers virtually instantaneous and relatively low-cost transfers between accounts at banks which are members of the system.

Such services have started to develop because banks have seen efficient cross-border payments as a means of drawing in small businesses who operate increasingly across borders. But yesterday's decision shows that the impact of such initiatives has been too slow to hold the commission back.

EU BANK TRANSFERS

Number of working days for payments to arrive	% of payments arrived
Same day	0.8
1	2.0
2	9.7
3	27.1
4	19.2
5	16.1
6	9.7
6+	15.4

Source: Retail Banking Research for European Commission

European banks expect telephone services to grow

Almost all the banks in Europe which have not already developed telephone banking facilities are planning to do so within the next six years according to a survey published today, writes Alison Smith. A poll by Datamonitor, the market research group, found that 65 per cent of banks already offered telephone banking and a further 30 per cent of total respondents were planning to provide such a service.

Across 12 European countries, the target markets seen by banks for the telephone service were primarily those in the 25-44 age group.

Beyond that core, however, banks in different countries diverged more significantly in their target markets. Those in Austria, France, Germany and Sweden, for example, saw the 18-24 age group as the third target area, while banks in Finland, Ireland, Spain and the UK cited the 45-54 age group as more of a priority.

The 83 banks which responded to the survey expected increasingly to provide general insurance, mortgages, personal loans and financial advice over the telephone where they did not do so already. The poll found that telephone banking had penetrated the retail banking market most extensively in Sweden and Belgium, and made least impact in Italy and Portugal.

State SPD may defy party line

By Judy Dempsey in Berlin

Social Democrats in the east German state of Mecklenburg-Vorpommern are determined to keep open the option of forming a government with the Party of Democratic Socialism, the reformed communists, in spite of strong pressure from the federal SPD leadership to form a grand coalition with the ruling CDU, state officials said yesterday.

The SPD won 29.5 per cent of the vote, giving them 23 seats in Mecklenburg-Vorpommern in Sunday's state election, just above the PDS, which won 22.7 per cent and 18 seats. The CDU, which won 37.7 per cent of the vote and 30 seats, formed the last government in coalition with the Free Democrats but the FDP failed to get re-elected to the state parliament.

Mr Harald Ringstorff, leader of Mecklenburg-Vorpommern's SPD, has been told by the party's federal leadership to start coalition talks with the CDU. "We will start talks with the CDU tomorrow," an SPD spokesperson said. "But if we do not succeed, we will keep the door open to the PDS despite pressure from Bonn."

The SPD federal leadership has since June tolerated the SPD/Green coalition in the eastern state of Saxony-Anhalt, whose minority government relies on the support of the PDS, but it is unwilling to allow formal coalition with the former communists.

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EUROPEAN NEWS DIGEST

Turkic states grow closer

Turkey and central Asia's Turkic republics yesterday ended a two-day summit in Istanbul with pleas for negotiated settlements to regional conflicts and improved trade and infrastructure links. Leaders from Turkey and the five Turkic states of the former Soviet Union signed a declaration reaffirming the need for regional political consultation but did not mention Turkey's earlier idea of creating a Turkic federation reaching from the Mediterranean to China.

They were also careful not to antagonise Russia, insisting that the summit was not an attempt to undermine the CIS. Moscow has criticised Turkey's attempt to strengthen its presence in the region, but Turkey's President Süleyman Demirel said his objective was "not to create a sphere of influence but a zone of co-operation". Representatives from Azerbaijan, Kyrgyzstan, Turkmenistan, Kazakhstan, Uzbekistan and Turkey emphasised instead the need to strengthen trade links and improve the region's poor transport infrastructure. They said a new Silk Road should be built to connect the region's markets. Turkey also used the forum to press that the proposed oil and gas pipelines between the Caucasus and Europe should cross its territory rather than Russia. *John Barham, Ankara*

Curb on money laundering

Monaco has signed an accord with France to co-ordinate efforts against money laundering. The agreement will require banks, insurance companies and bureau de change agencies in the principality to hand over details of bank accounts and transactions wherever they have suspicions. It will for the first time open communication between Trackfin, the French agency responsible for tracking laundered money, and Siccfin, its equivalent in Monaco. It follows similar agreements signed between France and other countries including the US, Australia, Belgium and Italy over the past few years. Siccfin was set up last year following the introduction of a banking law in line with international guidelines designed to clamp down on money laundering. *Andrew Jack, Monaco*

Brescia steel aid approved

The European Commission has approved an Italian government aid package to help steelmakers in the Brescia region restructure. The Commission said in a statement the Ecu410m (£323m) plan would add 5m tonnes in capacity cuts to the 11m already achieved as part of an EU-wide rescue package for the European steel industry. The EU has demanded 19m tonnes of capacity cuts by November 8 for the overall package to go ahead. The Commission said the Italian plan involved L600bn in aid to help close down steel mills in the Brescia region and L190m to help re-employ redundant workers. The Italian plan is a revamped version of a package earlier deemed by the EU to breach its aid rules. *Reuter, Brussels*

French coal mining set to end

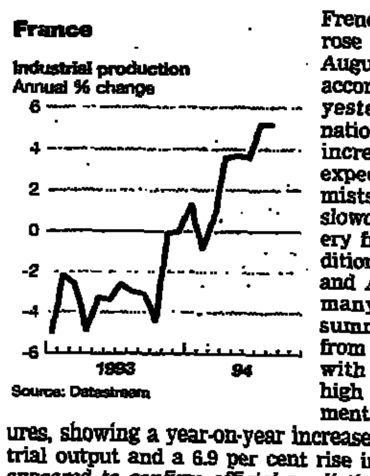
Charbonnages de France (CdF), the state monopoly producer of coal, said yesterday it was confident of winning the support of a majority of unions for its plan to abandon mining entirely by the year 2005. Only 10 per cent of miners in the main Lorraine coalfields heeded a strike call on Tuesday by the left-wing CGT trade union. French coal mining has been in rapid decline for some time, and CdF – which had 41,000 employees producing 18.5m tonnes in 1986 – now produces only just over 10m tonnes with 16,000 employees. Under last July's government plan, which is only opposed by the CGT out of the five unions represented at CdF, employees can take redundancy money or stay on at CdF, which after 2005 will continue to run its electricity generating plants with coal imported from outside Europe. The latter is half the real price of French coal which is heavily subsidised, though the government is making a start to the planned phase-out of domestic mining by slashing this year's subsidy from FFr6.4bn (£770m) to FFr4.4bn next year. *David Buchan, Paris*

Cleaner water costs mount

Plans to improve drinking water in the EU, mainly by eliminating more lead, could cost member states more than Ecu50bn (£39m), a draft Commission document reckons. "The estimated potential investment costs of the proposed changes in the [drinking water] directive are almost entirely associated with the change of the [limit] value for lead," the draft proposal says. "These costs could be of the order of Ecu50bn." But "it will be for member states to decide to what extent individual householders should replace lead pipes within their property," the text says, adding that they could be given 15 years to bring their water up to scratch. According to Commission estimates France's bill could be as high as Ecu44.5bn and in England and Wales the costs could run to Ecu10.7bn. The draft proposal keeps the existing limit for individual pesticides but scraps a limit on the cumulative total. The European environmental bureau, which groups 150 environmental groups from 23 European countries, attacked the decision. *Reuter, Brussels*

ECONOMIC WATCH

French industrial output rises



French industrial production rose 2.3 per cent in July and August compared with June, according to figures released yesterday by Insee, the national statistics office. The increase was stronger than expected by private economists and eased fears of a slowdown in France's recovery from recession. Insee traditionally puts data from July and August together because many companies close for summer holidays. Figures from the period are treated with caution because of a high level of seasonal adjustment. None the less, the figures, showing a year-on-year increase of 5.2 per cent in industrial output and a 6.9 per cent rise in manufacturing output, appeared to confirm official predictions of continued healthy growth. *John Ridding, Paris*

■ German producer prices rose 0.2 per cent last month, after remaining unchanged in August. Producer prices rose 0.6 per cent year-on-year.

■ Dutch non-seasonally adjusted unemployment rose to an average of 484,000 in July-September (7.6 per cent of the labour force) from 421,000 (6.6 per cent) a year ago.

■ Swedish retail sales rose 0.3 per cent in August compared to August 1993 after a 4.7 per cent decline the month before.

White House move highlights differences in Bosnia policy

US ready for unilateral end to arms ban

By Bruce Clark

Mr Willy Claes, Nato's new secretary-general, yesterday insisted that serious differences with the United Nations over air tactics in Bosnia could be bridged in spite of the failure of talks in New York this week.

However, trans-Atlantic tensions over policy towards former Yugoslavia were fuelled by a statement from the White House that the US was prepared to defy its allies and take unilateral action to authorise arms supplies to Bosnia.

Mr Claes told Nato ambassadors in Brussels that his hopes of a compromise with the UN rose after a telephone conversation with Mr Boutros Boutros Ghali, UN secretary-general.

Nato, under strong pressure from the US, is demanding the right to make more draconian use of its aircraft over Bosnia. It wants the right to carry out air strikes more rapidly, and without prior warning, in response to any provocations by the Bosnian Serbs.

The British and French commanders in charge of UN ground troops in Bosnia insist that they are the best judges of how to protect their own men and humanitarian convoys in the war zone.

In support of the case for caution, they have pointed out that children were playing in the area where Nato aircraft struck a Serb tank last month.

Instead of the current procedure, under which UN commanders specify exactly which target the Nato aircraft should aim at, the Atlantic alliance wants its pilots to be given a range of at least four targets.

Talks in New York on Monday revealed big differences between General Bertrand de Lapresle, the UN commander in former Yugoslavia, and senior Nato officials.

However Mr Claes – in one of his first diplomatic initiatives since taking over Nato's top job – said he had ironed out some of the problems in a telephone talk with Mr Boutros Ghali.

Diplomats said there was room for compromise over the issues of how much warning of impending air strikes to give the Serbs and the selection of targets.

Yet the prospects for international co-ordination over Bosnia were clouded by a statement from the White House that President Bill Clinton might act alone in authorising arms deliveries to Bosnia's leadership.

Ms Dee Dee Myers, White House spokeswoman, said the US was lobbying for a UN resolution lifting the embargo but added that if that "doesn't succeed by November 15 . . . then we would look at ways to perhaps lift the embargo unilaterally.

"Our preferred position has been a multilateral lift," she said. "We certainly are going to pursue doing it multilaterally, working with our allies, particularly countries that have troops on the ground."

Mr Malcolm Rifkind, defence secretary, defended the UN's decision not to call in air strikes after a shooting incident in eastern Bosnia this week in which the driver of a UN aid convoy was killed.

He said ground forces had made a "vigorous" response by firing back at the convoy's attackers. This demonstrated that "there were other means available" besides air power as a response to provocations.

Premier Waldemar Pawlak: approved list of companies

Polish privatisation back on track

By Christopher Bobinski in Warsaw

Mr Waldemar Pawlak, Poland's prime minister, yesterday removed one of the last obstacles to the long delayed mass privatisation programme by approving around 100 companies for inclusion.

The decision, which brings the number of companies to be transferred to the private sector at one fell swoop up to 460, has been awaited by the privatisation ministry since July.

Poland had promised both the International Monetary Fund and the World Bank that the plan would go ahead. Both institutions, worried about the fate of the programme, had insisted it be implemented before freeing funds to finance the recent agreement to cut cut Poland's commercial debt by 49.5 per cent.

Mr Pawlak, who heads the Polish Peasant party, junior partner in the government, has argued that the plan gives too great a role for foreign managers and includes too many plants in key sectors.

The previous government approved 360 companies more than a year ago. About a dozen companies were removed from the present tranche before the prime minister signed it.

The government plans to establish around 15 national investment funds (NIFs), run jointly by foreign and local managers, which are to be handed equity in the 460 companies. Shares in the funds are then to be distributed to the population at large for a nominal fee. Next year's budget assumes that income from the fees will run to 4,000bn zlotys (£108m).

Fund managers for the programme have already been shortlisted and these include Kleinwort Benson, Barclays de Zoete Wedd and Charterhouse, as well as Polish banks and local consultants.

The next step is for the government to establish the NIFs formally and appoint supervisory boards which will then chose management groups.

The funds are to stay in existence for 10 years, with managers paid an annual fee as well as a performance bonus in NIF equity and cash at the end of the period. The aim is to privatise the companies as well as improve management, modernise plant and generally enhance their value.

The scheme has become an indicator for international financial institutions and investors of the government's intentions on privatisation. It leaves abother 5,000 or so companies to be privatised including sensitive sectors such as petrochemicals and telecoms.

EU policies 'main threat to E Europe exports'

By Anthony Robinson, East Europe Editor

The trade and industrial policies of the European Union were yesterday singled out by the European Bank for Reconstruction and Development (EBRD) as "the main threat to eastern European exports and investment".

In its first "transition report" on the shift from centrally planned to market economies throughout the former Soviet bloc the EBRD states, "the main threat to eastern European exports and investment comes from actual, threatened and 'latent' trade remedy action employed for purposes of managing trade to support industrial policy objectives in the EU".

It warns of the uncertainty that such policies arouse in exporters and potential investors and adds that so-called "voluntary export restraints" imposed by the EU on the former communist states "can strengthen bureaucracies and existing exporters at the expense of new entrants".

At the end of May 1994, some 19 anti-dumping measures imposed by the EU were in force along with 12 other trade restrictive measures, the report shows. "The mere threat of limited market access may generate sufficient uncertainty so as to reduce investment in competitive sectors," the report adds.

The report also criticises the Europe Agreements (EA), which are bilateral trade agreements between the EU and individual central European countries. By setting very high local content rules the EAs "have investment-deterring effects" on assembly operations in Eastern Europe which use cheap but skilled local labour to assemble finished products incorporating parts imported from other EA countries. They also discourage greater trade between the former Comecon states, it says.

In spite of the hurdles that the EU continues to place in front of the economies in transition, however, the report shows how much progress has been made over the past five years. The private sector now accounts for more than half of all economic activity in nine of the 25 countries surveyed and, with the exception of Ukraine, most states have managed to avoid hyper-inflation.

Inflation is down to low double digits in most of central Europe and the Czech Republic is first in line to bring price rises down to single figures this year or next. Unemployment, whose rise over the past five years has been one of the clearest indicators of the shake-out from the Soviet-style heavy industries and arms plants which littered the region, is now starting to ease off in the fast-track reforming states.

TRENDS IN UNEMPLOYMENT AND INFLATION

	Unemployment (% labour force) end-year		Inflation (average % change) consumer prices	
	1993*	1995**	1993*	1995**
Albania	17.5	15.8	85	16.0
Bulgaria	16.4	16.4	73	44.1
Czech Republic	3.5	5.7	20.8	8.8
Estonia	2.6	8.0	89.8	15.0
Hungary	12.1	11.3	22.5	16.9
Latvia	5.3	13.0	109	15.0
Lithuania	1.4	9.0	390	30.0
Poland	15.7	16.8	35.3	22.7
Romania	10.2	15.1	256.1	58.6
Slovak Rep.	14.4	14.9	23.2	12.5
Slovenia	14.5	13.0	32.3	14.0
Russia	1.1	6.5	896	198
Ukraine	0.4	12.5	4735	338

*Estimate **Average forecast Source: EBRD

Foreign equity investment, which totalled only $12bn until the end of 1992, remains highly concentrated on Hungary. But the Czech Republic, Poland and other states with restructured economies and growing domestic markets are attracting growing volumes of investment.

Set against the benefits of greater choice of goods, the end of queueing and shortages and greater employment freedom, however, are negative social factors such as the growth of crime, more social and job insecurity and rapidly widening income differentials.

On the evidence garnered from the 25 highly diverse former centrally planned economies in which the EBRD now operates, the most important elements conducive to a successful transition have proved to be "transparency of government action, macro-economic stability and progress in privatisation," Mr Nicholas Stern, the EBRD's recently appointed new chief economist said. Other important factors include progress in taxation reform, with the introduction of VAT and graduated personal and corporation income taxes, and financial market and bank reforms.

The report indicates a growing split between the group of central European countries closest to EU markets, quickest to adopt macro-economic stabilisation and micro-adjustment policies, and the slower, more distant parts of the former Soviet empire where reform started later from a less culturally prepared base.

The Czech Republic, Hungary, Poland, Slovakia, the Baltic states and Slovenia have made most progress to date. In these countries the decline in production which followed market reforms and the collapse of the Comecon markets is over. Poland, the first to bite the bullet of macro-economic stabilisation in 1990, was the first to return to growth in 1992. But all are now in the early stages of what should be a prolonged rise in production, investment, foreign trade and income. Official statistics, still biased towards the declining state sector, under-record the real rates of income and output growth, the report adds.

The EBRD identifies an intermediate group, including Kyrgyzstan and Russia, which has made "spectacular progress" in privatisation but remains far behind in financial sector reform and enterprise restructuring.

Beyond lie Ukraine and several other Commonwealth of Independent States members which have been slow to embark on monetary and other essential structural reforms and reluctant or unable to privatise. Growth here is not likely to resume until around 1996.

Milan's anti-corruption magistrates face inquiry

By Robert Graham in Rome

Mr Alfredo Biondi, the Italian justice minister, has ordered an inquiry into a series of complaints made about the behaviour of Milan's anti-corruption magistrates.

The move comes at a time when the higher magistrates' council, the governing body of the judiciary, looks set to shelve a complaint lodged by the Berlusconi government over a newspaper interview given by Mr Francesco Saverio Borrelli on October 9. In the interview Mr Borrelli said the investigative net was closing round Mr Silvio Berlusconi, the prime minister, and he also attacked Mr Biondi.

The complaints are understood to cover seven separate aspects of the Milan magistrates' activities during the course of the year but mostly since the Berlusconi government took office in May. Two of the complaints concern the conduct of investigations into the activities of Berlusconi's Fininvest business empire.

The first incident relating to Fininvest was the very public search of its offices on March 9 and attempts to secure the arrest of top Fininvest managers before the general elections. Mr Berlusconi complained at the time that the action was politically motivated.

The second complaint was about the inquiries into the ownership of Telepiù, the cable TV channel 10 per cent owned by Fininvest. Mr Fidele Confalonieri, Fininvest chairman, has complained this is a vindictive effort to smear Fininvest's name rather than a serious inquiry.

"The desire to put all the complaints against Milan together and to carry out this investigation just when the higher magistrates' council is moving to shelve the Borrelli affair does not seem to be a correct use of authority," said Ms Elena Paciotti, head of the magistrates association.

While the government appeared determined to open a new front in their long-running confrontation with Milan magistrates, the right-wing coalition yesterday signalled its readiness to soften its position on another – cuts in pensions contested by the trades unions.

The government held a day-long meeting of all key members of the coalition and economic ministers to find an agreement on concessions to be made to the unions. Mr Berlusconi signalled in advance his willingness to make changes in the plans for pension reforms. But he insisted any changes involving extra spending would have to be compensated by alternative cost-cutting measures.

The populist Northern League and the neo-fascist MSI/National Alliance have pressed for amendments to ease hardship cases. The government has been obliged to soften its stance on pensions after the widespread observance of last Friday's four-hour general strike, which saw more than 3m persons demonstrating in the major cities up and down the country.

NEWS: WORLD TRADE

Brussels ban on shipping lines 'cartel'

By Charles Batchelor, Transport Correspondent

The European Commission yesterday blocked the Trans-Atlantic Agreement (TAA), a *shipping "conference"* which set cargo rates and capacity levels across the north Atlantic, because it infringed European Union competition rules.

The decision represents a victory for exporters who complained the agreement had led to excessive charges for shipping container cargoes and a defeat for the 15 large shipping lines which set up the agreement in 1992.

The ruling is, however, only the first stage in resolving this dispute because the shipowners established a modified arrangement, known as the Trans-Atlantic Conference Agreement (TACA), in July. Earlier this month they made a further concession by offering to remove capacity constraints *from the* TACA.

But shippers, companies which export goods across the Atlantic, said this was simply a delaying tactic and threatened legal action against the European Commission if it did not speedily issue a ruling on both agreements. A second objection to the TAA/TACA – that they set rates for containers on their land journey to the port, thereby increasing costs – is still rejected by the shipowners.

A decision on the TACA is expected within the next few weeks. The British Shippers' Council, representing exporters, said the commission's ruling established an important principle which would have implications for similar conference agreements covering trade with the Far East and Africa.

"This underlines the fact that European industry has been unnecessarily damaged over the past two years," said Mr Chris Welsh, head of the council. Shipping rates rose by an average 50 per cent in 1993 and between 10 and 15 per cent this year, he added.

Shipowners involved in the TAA had been expecting the commission ruling but hope that the TACA ruling will be in their favour. They were last night still awaiting full details of the commission decision.

If the TACA is also rejected, however, there could be a return to lower transatlantic shipping rates and a resump*tion of the losses which* plagued this route in the late 1980s.

The TAA/TACA groups 15 large shipping lines which account for 85 per cent of sailings across the north Atlantic. It was introduced to stem considerable losses by the shipping lines and its members include Nedlloyd, Maersk, P&O, AP Moeller and Hapag-Lloyd. Exporters say these losses were exaggerated and the conference has been used to push through excessive rate increases.

British bankers try out a royal sales pitch

By John Thornhill in St Petersburg

Behind the pomp of Queen Elizabeth's visit to Russia, British and Russian businessmen have been getting on with the "development of capitalism," the title of a seminar held on the royal yacht Britannia. Some 50 Russian businessmen and bankers have been invited on board the yacht, moored on the Neva River, just out of sight of the Russian cruiser Aurora where the first shots of the Bolshevik revolution were fired.

British Invisibles, an umbrella body promoting *invisible trade*, had been quick to exploit the publicity surrounding the Queen's visit to stage a sales pitch for the virtues of British banking, legal, accounting, and management consulting services. It was their eigth such foreign event this year and the third occasion on which they had utilised the royal yacht.

A string of British advisers represented included Kleinwort Benson, Robert Fleming, Clifford Chance, Freshfields, Smith New Court, Ernst and Young, and Coopers and Lybrand.

With $500m of foreign portfolio investment pouring into Russia every month, the British delegation said equity could provide a cheap and effective means of raising funds to finance the growth of Russian companies. However, they cautioned that substantial preliminary work including accounting and legal studies would be required first.

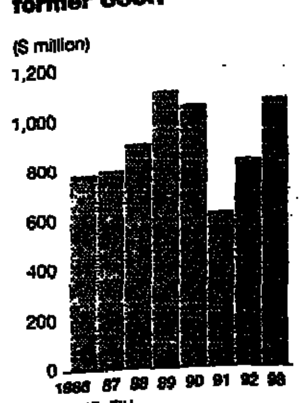
A discussion on financing the growth of a hypothetical Russian company sparked lively debate and highlighted the differences in business cultures. It also emerged that some of the Russian guests had their own sales pitches to make.

Mr Cyril Smirnov, president of Astro Bank, a large local commercial bank, suggested that the Russian banking system could provide sufficient funding and that companies did not need the assistance of outsiders. A university lecturer said Russian managers needed re-education and training before they would be up to the task.

Many of the Russian guests blanched when the subject of prospective fees was raised. A margin of 5 to 7 per cent to raise $10m of fresh capital clearly seemed excessive to some – no matter how much it would help fuel future growth. An interpretation of both business cultures was put forward by Mr Igor Kostikov, the managing director of a local stockbroking firm. "Russian managers are reluctant to accept the loss of control that goes with raising equity capital. But they also worry about taking on the liabilities of corporate debt. They feel that it is enough to survive at the moment and do not yet see the need to grow," he said.

Sir Brian Pearse, chairman of British Invisibles, expressed cautious optimism. "We do not think that there can be any quick fix for Russia but we are saying very clearly that we will be here for the long term."

UK Exports to the former USSR



Source: IMF, EIU

British Trade Minister Richard Needham speaking at an energy workshop in Jakarta yesterday, flanked by Indonesia's Energy Minister Ida Bagus Sudjana. The two ministers signed an agreement on technical co-operation in the energy sector. British Gas said it expected to announce a $350m joint venture next month to build a 400MW power plant in Indonesia. The company is in talks with Bakrie Brothers, a private Indonesian telecommunications and plantations group and has agreed the venture in principle. However, financing has not yet been agreed. British Gas may hold less than 50 per cent of the plant, which will begin construction early next year. The plant will be designed, built and operated under British Gas management. British Gas already has a number of activities in Indonesia, where power demand is expected to rise 14 per cent a year to 2004. Picture: Reuter

Nestlé bridles at Thai price curbs

By Victor Mallet in Bangkok

Thailand has put instant coffee on a list of products subject to price control, prompting veiled suggestions from Nestlé, the Swiss foods multinational, that foreign investors would take offence at such a backward step on the road to free enterprise.

Nestlé – whose Thai subsidiary Quality Coffee Products has more than 80 per cent of the local instant coffee market – angered the government by raising prices 10 per cent in July and by refusing commerce ministry demands to reverse the price increase.

The dispute came to a head this week when the cabinet *authorised the ministry to* put instant coffee on the list of controlled consumer products. Instant coffee had been removed from the list two *years ago along with 100 other* products as part of an economic liberalisation drive.

"This restrictive measure applied to a non-essential product may prove prejudicial to Thailand," said Mr Andreas Schlaepfer, managing director of the Thai Nestlé group, "particularly since this case has attracted the attention of foreign investors in the region."

He said the 10 per cent rise, the first in three years, was to offset higher operating costs and was unrelated to rising world coffee prices. "It's not a monopolistic situation at all," he said. "There are two other factories here, with large installed capacity and the right technology." Businessmen in Bangkok *believe Nestlé has* fallen foul of the Thai government's attempts to control inflation, which reached 5.3 per cent in September.

Asia's developing nations hungry for private investors' billions

By Manuela Saragosa in Jakarta

Asian governments at the World Infrastructure Forum in Jakarta yesterday called on private investors to take a leading role in financing ambitious plans for development of their transport and telecommunications sectors.

Indian officials said that by 1997 their country wants to achieve its target of allocating telephones on demand, a programme requiring investment of more than $8bn. "This is beyond the capacity of the government funding and generation of resources," he said. "*Private investment and asso*ciations of the private sector would be needed in a big way to bridge the resource gap."

The officials said that for the telecommunications sector to play its assigned role in the country's development, it needs to increase its telephone connections to 60m from the present 8m "as rapidly as possible".

That will require an estimated investment of $60bn.

While basic telephone services are still lacking, Indian officials said they are also inviting private investment to set up value-added services. A tender is being prepared to invite technical and financial help in setting up cellular mobile phone services outside the main cities of Bombay, Delhi, Calcutta and Madras.

Indonesia said it needs $12.5bn over the next five years to develop transport infrastructure, including roads, railways, inland waterways, sea port facilities and airport facilities. Indonesia also announced plans to invest more than $1bn by the year 2005 on water projects in Jakarta. Of this, $200m would be spent on distribution improvements alone.

"Under these circumstances, efforts should be made to encourage and stimulate private sector participation," an Indonesian official said.

Some 44 per cent of the requirement for Indonesian transport infrastructure development is expected to come from the private sector. The remainder is expected to come from state-owned companies, the government and foreign *loans*.

The Indian government yesterday announced it is tendering for nine projects amounting to 167km of a high-speed tram system in the Delhi area. It is also offering projects on a build-operate-transfer basis for five bypasses, with an estimated cost of $70m, eight bridges which will cost about $147m and nine expressways costing an approximate $3.5bn.

The Philippines listed 175 potential projects worth over $14bn which are likely to be tendered on a build-operate-transfer basis for highways, transportation, power generation, water systems, tourism, industrial estates and waste management.

The Asian Development Bank estimates that Asia *needs about $3,000bn in infra*structure investment between now and 2010 if each country is to achieve its projected economic growth target.

WORLD TRADE DIGEST

Kantor plea to Japan on cars

US Trade Representative Mickey Kantor is seeking an initiative by Japanese carmakers in order to resolve the US-Japan trade dispute on vehicles. Mr Kantor said Japan's car industry could help break a deadlock in *stalled bilateral* trade talks by outlining a new multi-year programme to buy more foreign-made car parts.

"I believe both (the US and Japanese) industries are perfectly capable of working this out between themselves, if encouraged by both governments," he said. Mr Kantor said Washington will start a probe into Japan's car spare parts market under Section 301 of US trade law soon, the financial daily Nihon Keizai Shimbun reported. Under the bilateral economic framework talks, *the two nations have not yet* agreed on ways to open Japan's car and car parts market. The US has demanded that a yardstick be created to measure future results of market-opening steps, while Japan has opposed such a plan, saying the government cannot control the flow of private sector trade. *Reuter, Tokyo*

Pirelli in $5.8m cable project

The US cables and systems subsidiary of Pirelli, the Italian industrial company, is to collaborate with US companies, research institutes and the government in building the world's first prototype high temperature superconductor power cable. The new generation of cables, if developed successfully, should allow electricity utilities to increase the amount of power transmitted along existing routes, at lower costs and without environmental damage. Pirelli Cable Corporation will manufacture the cable itself. The project, which will cost $5.8m and last four years, will be co-funded by Pirelli, the American Superconductor Corporation, a Nasdaq-quoted US company which will manufacture the superconductive wire, the Electric Power Research Institute, the US electricity utilities' research body, and the US department of energy. The department's research laboratories at Los Alamos, Oak Ridge and Ames will also work on the project. *Andrew Hill, Milan.*

UK minister's peace mission

Mr Michael Heseltine, UK trade and industry secretary, yesterday proposed that Malaysian and British companies work together to exploit opportunities in Europe and in the Asia-Pacific region. "There is great scope if you seize the opportunity to use the UK as a springboard into Europe," said Mr Heseltine, the first British minister to visit Malaysia since it lifted a ban on doing business with British companies in September. In February Dr Mahathir Mohamad, the Malaysian prime minister, banned British companies from government contracts in retaliation for British press reports which hinted at corruption among senior figures in Malaysia. Mr Heseltine's two-day trip to Malaysia is being seen as a peace-making exercise. In hour-long talks with Dr Mahathir the British minister stressed Britain's extensive trade and cultural links with Malaysia and its willingness to transfer technology to Malaysia's fast expanding economy. Mr Heseltine carefully *avoided any public reference to* the trade ban, merely saying that in politics there were ups and downs. *Kieran Cooke, Kuala Lumpur.*

CONTRACTS AND VENTURES

■ Telecom Italia, Italy's state-controlled telephone company, has signed a six-year agreement with the Italian subsidiary of *Pharmacia, the Swedish pharmaceuticals company, to supply* and install telecoms equipment, and manage the subsidiary's telephone network. The value of the deal, the latest in a series of outsourcing agreements signed by Telecom Italia with companies in Italy, was not given. *Andrew Hill, Milan*

■ MAC Alenia-Marconi Communications, a British-Italian radio communications joint venture, has won a contract to supply a satellite communications station in Argentina for Telintar, the country's international telecoms company. The *station will link Argentina, Brazil and the US via the Intelsat* satellite. MAC is a joint venture between subsidiaries of Finmeccanica, Italy's state-controlled engineering group, and GEC of the UK. *Andrew Hill, Milan.*

■ San Miguel Corporation, the Philippine beer-and-food group, yesterday signed an agreement with Hebei Bada Group of Baoding City in Hebei province for a new joint-venture brewery in China, its third in that market. The Philippine group will have a 70 per cent controlling interest for its initial investment of $21m. San Miguel's other joint-venture breweries in China are in Guangzhou and Shunde in the southern province of Guangdong. *Jose Galang, Manila.*

■ Swiss-Swedish conglomerate Asea Brown Boveri yesterday moved its Chinese headquarters to Beijing from Hong Kong *and pledged to invest $500m* over an unspecified period. *Reuter, Beijing.*

■ Oman will soon award contracts for the engineering and design work of its $6bn liquefied natural gas export project. The project is being developed with foreign partners led by Royal Dutch/Shell. *Reuter, Dubai.*

■ Mitsubishi yesterday said it expects to sign an agreement today with the Philippines' state-owned power concern for a 300,000KW coal power plant order. The $376m plant in Masinloc, *about 150 miles north-west of Manila*, is expected to be completed in 1998 with funds from the Asian Development Bank and the Export-Import Bank of Japan.

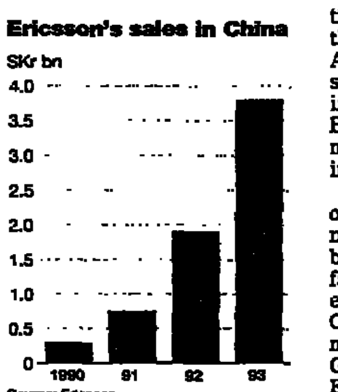
Ericsson rings the bell in Chinese market

With telecom sales doubling each year, financing expansion is a big headache, writes **Christopher Brown-Humes**

Mr Lars Magnus Ericsson, the founder of the Swedish telecommunications group that bears his name, would not have been surprised at the group's success in China. He may, though, have been puzzled that it took so long to materialise. A 1906 photograph *shows Mr Ericsson welcoming* the first Chinese delegation to the group's Stockholm headquarters. It is only now – after the hiatus caused by the Chinese revolution – that the group's efforts to develop the market have really started to bear fruit.

The rapid development of the Chinese telecommunications market has been a boon for equipment suppliers worldwide – but few have benefited as much as Ericsson. The group, which employs 1,400 in China, has seen sales in its fastest-growing market double every year over the last three years, a feat it hopes to repeat again this year. Last year China was Ericsson's sixth biggest market, accounting for SKr3.8bn ($520m) of group sales of SKr63bn.

Ericsson's sales in China



Source: Ericsson

Ericsson's Chinese business centres on three areas: AXE switches for public networks, mobile telephone systems and office switching systems. In mobile systems, the group boasts a 60 per cent market share, a dominance in line with its leading global position. In fixed systems, where the leading supplier is France's Alcatel, it claims a market share of about 20 per cent and in office systems 30 per cent. By comparison, it is weak in mobile handsets, which is dominated by Motorola of the US.

A steady inflow of orders *over the last three years culmi*nated in August in Ericsson's biggest contract in China so far – a $400m contract to extend the phone network in Guangdong province. China's most dynamic province, Guangdong accounts for half Ericsson's sales to the country.

"*We* have 3.5m fixed lines already installed in China and a further 2.5m on order," says Mr Uldis Zervens, Ericsson's director for east Asia. On the mobile side, the group has capacity installed or on order for 1.5m subscribers.

Most of the equipment comes directly from Sweden. But increasingly important are the group's joint venture colloborations in China with local partners. Ericsson already has five joint ventures, comprising three manufacturing units and two service companies, and more are planned.

The biggest collaboration is in Nanjing where the group produces radio base stations for mobile systems and AXE *switches with its partner*, Panda Electronics. Guangdong, Beijing and Dalian are the sites for the other four ventures.

The Nanjing joint venture got off the ground only after nearly three years of talks with the Chinese authorities. The decision-making involves three *tiers of government – federal*, provincial and local – and up to 15 different organisations, even though the end-customer has until now always been part of the ministry of post and telecommunications. At the state level alone, five different ministries are involved.

In theory the Chinese cake is big enough for everyone. In practice, competition is tough, says Ericsson.

At present there are only about 30m fixed lines in a country of 1.2bn people – a penetration rate of just 2.5 per cent of the population. But the authorities are ambitious, planning 10m new lines a year to achieve 8 per cent penetration by 2000.

The constraint is that the enormous development potential is matched only by the huge difficulties of financing it. Even though telecommunications is a priority area, there are clear indications that the authorities wish to restrict the availability of credits and guar*antees for equipment supplies*. This could pose problems for companies such as Ericsson although it could also provide an opportunity if it results in foreign operators being given more access to the country's market.

Mr Zervens says project financing looms as Ericsson's biggest Chinese headache. New rules of the Organisation for Economic Co-operation and Development, the 25-member industrial nation grouping, mean it is much harder to get soft loans for the development *of fixed networks; at the same* time western commercial banks and credit guarantee agencies are reaching the limits of their China exposure. One result is that Ericsson has had to subsidise some of the loans itself.

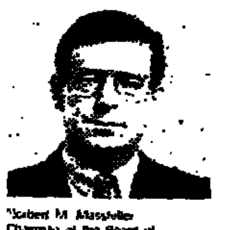
"So far we have been able to handle this but we see it as one of the major challenges for next year," says Mr Zervens. He says one way around the difficulty would be for Ericsson *to take some financing risk on* to its own books, a path it has reluctantly taken with other countries in the past.

Another is for China to let foreign operators gain a foothold in the market – a breakthrough that came all the closer last week when Cable and Wireless of the UK became the first foreign company to gain a concession to play a role in operating telecom networks.

ADVERTISEMENT

Emergence of a new international financial services supplier

More banking services and leasing offers for automobile customers and dealers / Geographic expansion / High earnings power for the Volkswagen group and its shareholders / By Norbert M. Massfeller



Norbert M. Massfeller
Chairman of the Board of Management of Volkswagen Financial Services AG

With the establishment of Volkswagen Financial Services AG, Brunswick, as the holding company for its financial services sector the Volkswagen group is defining more precisely its traditionally successful strategy in this field. Initial business figures for fiscal 1994 point to continuation of the positive trend in growth for the companies belonging to Volkswagen Financial Services AG. The new holding will be altering its refinancing strategy and expanding its international scope. Its several hundred thousand customers will also benefit from this, continuing to enjoy easy-on-the-pocket financing facilities. Over the coming months Volkswagen Financial Services AG as one of the leading suppliers of automobile-related financial services on the European market intends launching fresh products. At the same time it intends further internationalising its financial services and intensifying cooperation with its global distribution network.

This May Volkswagen Finanz GmbH was transformed into a public limited company with retroactive effect from January 1, 1994. The GmbH (private limited company) had been set up about two years ago in preparation for the plc. The new public limited company combines the Volkswagen group's European financial services companies, nine in all, under a new roof as fully-owned subsidiaries of Volkswagen Financial Services AG (see chart).

Independent refinancing

Steady growth in latter years, the dimensions reached in the consolidated accounts and, of course, the stable contribution toward profit have led to the identification of financial services as a strategic area of operations within the Volkswagen group alongside automotive business. A major factor is that the funding of our business has reached a dimension making it absolutely imperative for us to tap the most economical sources of refinancing worldwide. We shall grasp this opportunity. As a fully-owned Volkswagen subsidiary, we have mostly availed ourselves of group credit lines so far; but now we are increasingly talking about borrowing capital independently from outside sources.

High percentage of Volkswagen's consolidated accounts

The Board of Managing Directors of Volkswagen Financial Services AG was responsible for total assets of DM 18.1 billion Europe-wide as of June 30, 1994. This corresponds to 22.4 percent of Volkswagen's consolidated accounts. Approx. 2,100 people are employed, 60 percent of them in Germany. With a portfolio of 1,412,000 leases and financing agreements on June 30, 1994 a new record was posted. In the first six months of the year the number of new leased or financed vehicles increased by 23.1 percent over the year-earlier period. This boosted the share of vehicles leased or financed by us to around 30 percent of the group's total delivery volume in Europe alone, which also represents a new record.

Meanwhile, roughly half of all aggregate leasing or financing transactions by customers with the Volkswagen group pass through our books. We shall not rest until the other half, or at least a large proportion of it, is similarly entered in our accounts.

Setting our sights on new markets

One of our major strategic objectives is the geographic expansion of Volkswagen Financial Services AG. In various European countries the Volkswagen group maintains no production or import companies of its own, working instead with independent importers. On these markets the group sells roughly 400,000 cars a year, more than 19 percent of its total sales. We aim to become more active in this segment. Joint ventures, either with our local importers or other partners, would be conceivable.

Along the entire automobile chain of value added, from the making of a car through the distributive stages to the end customer using the product, the Volkswagen group's financial services participate in the earnings potential created.

Above and beyond this our major strategic assignment is also to promote sales of group products. We aim to create permanent customer bonds. With our financial services products we enter into a direct, and above all long-term relationship with our customers. Satisfied customers show a great degree of loyalty. This is illustrated by the high proportion of follow-up leases which our dealers conclude.

We exploit the "regular customer" asset to sell new products. Since November 1990, for example, the V.A.G Bank has engaged in deposit-taking business. At that time a credit card duo, Visa Card and Mastercard/ Eurocard was introduced for the first time in Germany. Customers have the choice of receiving their cards from the Volkswagen or Audi banks, both of which are branches of the V.A.G Bank.

Credit balances can be accumulated on the "PlusMinus Account" which goes with these cards. The deposits are available on demand yet still earn an attractive rate of interest. If necessary this account can also be used as a loan account. The deposits accepted by the V.A.G. Bank allow us to fund part of our sales financing business at favourable rates from within our own group.

With the PlusMinus Account facility we are now heading for total deposits of almost DM one billion. And further deposit products are in the pipeline: In January 1995 for example a range of term deposits will be launched. These include an automobile savings plan, a deposit facility which will earn an attractive rate of interest. With this customers can save up to buy a Volkswagen product.

Strategic importance of the distributive channel

Card business is not only of considerable significance for our private and corporate customers, it also represents an important customer service for our main sales outlet, the Volkswagen, Audi, Seat and Skoda partners. These are more than 14,000 dealerships and garages Europe-wide, with over 200,000 customer contacts a day.

In Germany we have begun equipping the first 600 dealers with Eurocash terminals. Customers can use these for cashless payment of services and spare parts with both their Eurocheque card and credit cards; it is naturally cheapest for the dealer if they use our cards. We intend installing these terminals in broad sections of our distributive organisation, also internationally.

Another example is the "Auto-Leasing-Financing" system (ALF). ALF offers our dealers comprehensive, EDP-based support enabling them to specify a vehicle together with the customer in a matter of seconds and draw up tailormade financing or leasing terms for it.

We also assist our dealers in financial matters affecting them personally. Besides traditional dealership purchasing finance we also offer general financial instruments for their operations. Examples of this are financing for the purchase of real estate, new building projects and building alterations and business equipment and fittings.

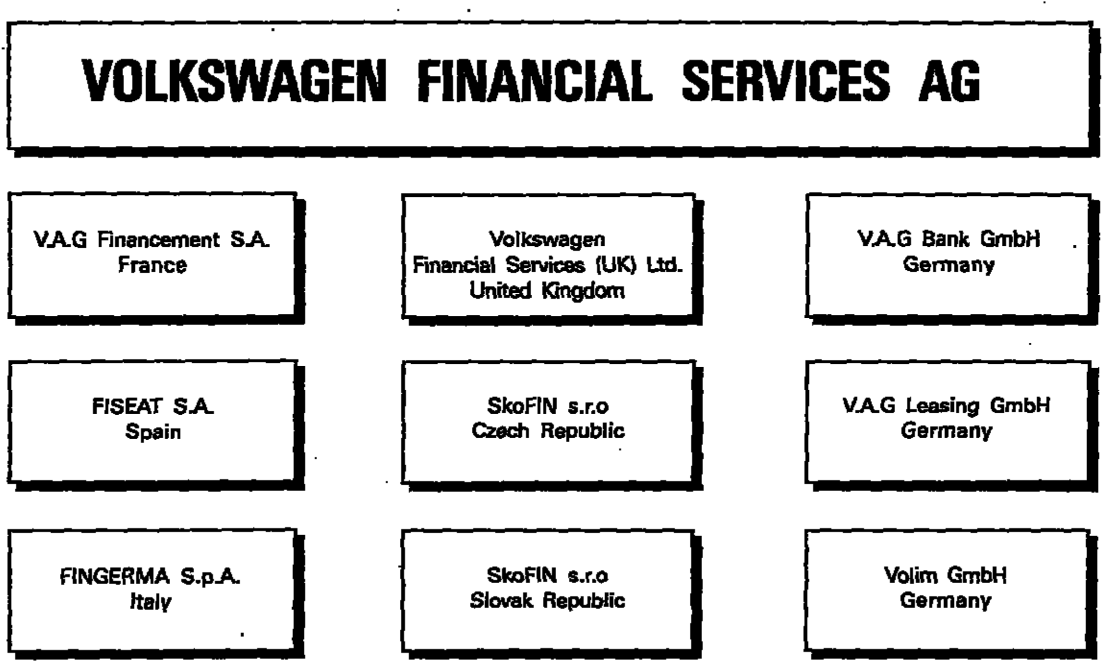
Business start-ups in East Germany

Following reunification it was difficult for many people setting up automobile dealerships and garages in East Germany to develop locations in suitable parts of town; this was where our company Volim GmbH came in. It purchased land and built premises on it for automotive operations, which have initially been rented out to the future owners.

Good business development

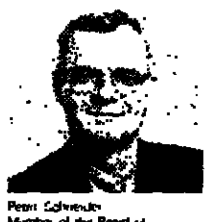
The positive way in which business has developed for Volkswagen Financial Services AG encourages us to look optimistically to the future. The aggregate result generated by the companies consolidated under Volkswagen Financial Services AG today contributes a double-figure percentage toward the annual profits of the Volkswagen group. This has a long-term and "stabilising" effect for the Volkswagen group. Moreover, the earnings prowess of Volkswagen's financial services sector should also be of interest to the group's shareholders.

FINANCIAL SERVICES AG



Poised to improve on previous year's good result

Further growth in 1994 for V.A.G Bank and V.A.G Leasing / First half-yearly accounts of Volkswagen Financial Services AG / By Peter Schneider



Peter Schneider
Member of the Board of Management of Volkswagen Financial Services AG

As at June 30, 1994 Volkswagen Financial Services AG posted total assets of DM 18.1 billion. This sum does not contain lease assets of DM 2.2 billion belonging to two holding companies in Germany which are not liable to consolidation. Whilst administering parts of V.A.G Leasing's lease assets, these companies do not engage in operative business with our lessees. The accounts are prepared according to German commercial law in close conformity with the method of itemization customary in banking business. The companies in Great Britain and the Czech Republic will not be consolidated until the end of the year.

The balance sheet clearly reflects our four major spheres of business. The asset item Lease Assets in the amount of DM 5.5 billion comprises a portfolio of 498,000 vehicles for lease. Leasing business is conducted by almost all the companies forming the sub-group. The largest share is accounted for by the German company V.A.G Leasing, with lease assets of DM 5.2 billion.

Regional differences in market penetration emphasise that the concept of ownership is still very pronounced in some countries. Another reason for varying leasing ratios on an international comparison is that the leasing market must be underpinned by a smoothly functioning resale market for second-hand cars.

Claims of DM 8.2 billion from lending to customers refer to a portfolio of 914,000 finance agreements. In the first half of 1994 no fewer than 246,000 new finance contracts were closed. This puts us well on the way towards further raising last year's substantial figure.

In regional terms the German V.A.G Bank accounts for the largest share, with 613,000 vehicles and total receivables of DM 5.9 billion. The other European companies have total claims of altogether DM 2.3 billion. One is naturally inclined to compare our financing portfolios in the various countries; but for full comparability absolute vehicle deliveries by the Volkswagen group must be taken as the benchmark.

High equity ratio

The downturn in the automobile industry has naturally had an impact on our dealership financing. As they were holding fewer vehicles and demonstration cars in stock, dealers needed less credit. Our portfolio of receivables from purchasing finance has dropped to DM 2.8 billion.

On the liabilities side of the balance sheet the item Customer Deposits reflects card business totalling almost DM one billion from the rapidly expanding Volkswagen and Audi Card System. This automobile-related product, which was introduced four years ago, is on offer only in Germany at present. On June 30, 1994 we were servicing 111,000 PlusMinus Accounts, for which a total of 130,000 card duos had been issued.

Our share capital and reserves amount to DM 1.4 billion. Counting the subordinated loans of DM 0.1 billion, Volkswagen Financial Services AG posts an equity ratio of 8.3 percent. This places it in an excellent position by industry standards.

So far the individual companies have refinanced their lending operations locally and almost exclusively through the Volkswagen group or in the interbank market. Of the DM 13.9 billion funds from outside sources 44 percent were made available by the group. We raise outside funds according to the principle of matching maturities.

Our customers include private persons, individual commercial clients and major accounts. We work together with several hundred thousand finance and leasing clients, enabling us to spread risk broadly. Of course we are also feeling repercussions from the economic downswing, with a marked increase in our bad debts this year. Adequate loan loss provisions have been made.

In the first half of 1994 the sub-group posted sales and income of DM 4.0 billion. DM 3.1 billion of this referred to sales from leasing business and DM 0.6 billion to interest income from financing transactions; these are the two major items. Lease income is naturally higher as the rental instalments also contain a depreciation element in addition to interest earned. Sales of second-hand vehicles at the end of the contractual period are also reflected in turnover.

At present no statement can be made on the sub-group's interim result. Not until the annual accounts are drawn up will the review of loan loss provisions required in banking business be complete. For the year as a whole we are aiming at profit in the nine-figure region.

Balance sheet structure of VOLKSWAGEN FINANCIAL SERVICES AG

June 30, 1994	DM bn	%
Lease assets	5.5	30.4
Claims from lending to customers	8.2	45.3
Claims from purchasing finance	2.8	15.5
Other assets	1.6	8.8
Total assets	18.1	100.0
Equity capital	1.4	7.7
Subordinated loans	0.1	0.6
Customer deposits Card business	0.8	4.4
Miscellaneous liabilities	13.9	76.8
Other liabilities	1.9	10.5

Better banking and leasing terms through global refinancing

Efficiency on the capital markets / New finance company in the Netherlands / Bond issue in Czech Republic / By Klaus R. Zapf

Klaus R. Zapf
Member of the Board of Management of Volkswagen Financial Services AG

There are several reasons why Volkswagen's financial services sector was spun off into Volkswagen Financial Services AG. One important aspect was the creation of a unit eligible to operate on the capital market. This exploits all funding possibilities on the national and international interbank market as well as with institutional investors in Germany and abroad - a particularly important aspect for us - without the help of our parent company, Volkswagen AG.

Since we are financing attractive assets, namely lendings to over a million borrowers and lessees, we are confident of being able to tap new sources of liquidity for the Volkswagen group as a whole. This means that we can place the funding of our lending operations on a broader basis.

The second major reason for the spin-off is that we intend clearly separating financial services from the automotive division of the group in balance sheet terms. This will, for example, enable the Volkswagen group to show more clearly than before just how high its equity ratio in core business really is. At the end of June 1994 the equity ratio in the consolidated accounts was 18.5 percent. But without the financial services division it worked out at around 24 percent.

In search of independent rating

To approach the money and capital markets directly, without the support of Volkswagen AG, we need independent rating. We aim to have the first rating carried out by Standard & Poors as soon as possible, at the latest once the annual accounts are available for 1994. We shall then have ourselves assessed by Moody's. Initial talks suggest that we shall receive the same quality rating as our parent company.

Refinancing strategy

With regard to our refinancing strategy one example will serve to illustrate the significance which we attach to this task. Given a funding volume of around DM 18 billion Europe-wide, purchasing credit by just one per mille less would lead to a positive profit contribution of DM 18 million. True to López policy we shall therefore optimise our procurement of funds on the international money and capital markets.

Our refinancing strategy is geared to specific principles. The first is that we fund our lending at matching maturities whenever possible, although we will naturally take advantage of favourable interest rate patterns. We have pursued this policy in 1994 with considerable success. Transformation profits will have a not insignificant influence on our 1994 results.

Another principle refers to the way in which our subsidiaries refinance their lendings. So far they have raised funds in the market independently for the most part, with the exception of the leasing company, which funds its operations mainly through the group, partly for tax reasons. In future, too, we shall essentially be adhering to our policy that all business is local.

However, local refinancing is always judged in terms of the finance capital which Volkswagen Financial Services AG can raise on the international markets.

Within the framework of our funding strategy the V.A.G Bank occupies a special position at Volkswagen Financial Services AG because as a fully-fledged bank - the only one in the sub-group, incidentally - it naturally has better borrowing possibilities.

A bank also enjoys tax advantages. What is more it can accept deposits, an aspect which is becoming increasingly important. At present we are heading for total deposits of almost DM one billion. We shall therefore make use of this instrument to extend our banking activities beyond Germany with a view to optimising our refinancing.

New finance company in the Netherlands

Following the establishment of Volkswagen Financial Services AG and the move towards independent rating, we are taking a second logical step by setting up a finance company. This company will have its registered seat in the Netherlands. It is called Volkswagen Financial Services N.V., Amsterdam.

Through this finance company we intend raising short, medium and longer-term funds on the Euromarkets using various capital market instruments. For example, we plan to take out a subordinated loan through the N.V. as cushion capital comparatively soon to adjust our equity capital to the requirements of strong growth.

Banks require a minimum capital adequacy ratio of eight percent, and in future this will also apply to finance companies with a bank belonging to their consolidated group. At the moment Volkswagen Financial Services has core capital of 6.0 percent. It is our aim to scale down the core capital to a ratio of around 4.5 percent and to flank our growth with cushion capital from various sources.

Bond issue by the Czech company

For our company operating in the Czech Republic, SkoFin s.r.o. Prague, we are in the process of preparing a bond issue of probably altogether Kc one billion, the equivalent of around DM 60 million. The reason for this issue is the difficulty in raising long-term funds on the interbank market. Unfortunately the lending market in our neighbour to the East has not yet attained the necessary depth. Floating of this issue would make SkoFin the first foreign company in the Czech Republic to fund its operations in this manner.

Manila acts to tighten liquidity

By Jose Galang in Manila

The monetary authorities in the Philippines are moving to tighten liquidity in the financial system to keep inflation within targets prescribed by the International Monetary Fund.

The move follows the visit of Mr Michel Camdessus, IMF managing director, during which an excess of nearly 8 per cent in the money supply target was discovered.

Under the IMF-supervised economic programme approved on June 24, reserve money (currency in circulation, plus deposits and reserves kept by banks with the central bank) was targeted at 148.7bn pesos (£3.7bn) for September, in line with an inflation rate target of 8.5 per cent by end-1994.

A review conducted late in September found that reserve money had reached some 106.5bn pesos, nearly 8 per cent over target. Inflation, which had risen to 9.9 per cent in August, slipped to 8.6 per cent in September.

Mr Roberto de Ocampo, finance secretary, pledged to Mr Camdessus to bring down the liquidity level, but did not cite any specific reason for the surge. Analysts said the increase was being traced to the spate of initial public offerings on the local stock market and the refusal of some banks to roll over placements in Treasury bills on expectations of a new rise in interest rates.

Mr Camdessus, at the end of his visit on Tuesday, told officials the economy had been performing well, with a first-half growth rate of 5.1 per cent, but "continued vigilance" was needed against a resurgence of inflation. An IMF team, originally due in Manila in late November, is now being asked to delay its review to December.

The authorities appear confident of meeting the end-October reserve money ceiling of 162bn pesos under the IMF programme without fuelling any big increases in rates.

Vietnam wobbles on the capitalist fast-track

The party old guard signals its concern about unbridled reform as national assembly convenes, writes a correspondent

When the World Cup football semi-final was taken off Vietnam's state-run television channel in July and replaced with a eulogy to the dead North Korean leader Kim Il-sung, it was a clear sign that Vietnam's communist old guard was beginning to stir.

Hardline politburo member Nguyen Duc Binh apparently ordered the change from his hospital bed while reformist prime minister Vo Van Kiet was on a trip to Ho Chi Minh City in the south.

While the change of programme irritated Vietnam's football lovers, more fundamental tensions between reformers and conservatives are expected to emerge over the next 10 days as Vietnam's National Assembly convenes a landmark session in the capital, Hanoi, starting today.

Inflation, a swelling budget deficit and a review of the last four years of virtually unimpeded foreign investment are expected to top the agenda.

Hanoi-based diplomats say the session could also yield a handful of ministerial reshuffles reflecting the fact that officials are starting to be made accountable for economic mismanagement as Vietnam undergoes adjustment of its once centrally planned economy along market lines.

They say a prime candidate for demotion is finance minister Ho The, widely blamed for failing to check a swelling budget deficit and making promises of central government funding to provinces that were never fulfilled.

"He's ripe for sacking," said one veteran economist and government adviser. "He's made some very contradictory decisions."

Vietnam reacted nimbly to the sudden disappearance of aid in 1989 from its main benefactor, the former Soviet Union, achieving remarkable success in slashing annual inflation from four-digit figures to a respectable 9.9 per cent. The country's staple exports of crude oil, rice, coffee and rubber have helped maintain a much-needed flow of foreign exchange. Incomes, particularly in the cities, are rising fast. Foreign investment has poured in, reaching a total contracted amount of $10bn (£6.3bn) last month.

Economic reformer: Vietnam's prime minister Vo Van Kiet

But this year there was an alarming rise in imports in the first six months, resulting in a trade deficit of $200m. Other disappointing economic statistics have soured the optimism of the past two years, fuelling conservative calls for a re-assessment of doi moi, the term used to refer to the economic reforms officially sanctioned in 1986.

Diplomats say the news has worried government planners and fractured the previous fragile consensus among policy-makers that the pace of reform should quicken.

Other signs of hardening attitudes include the banning last week of a collection of short stories on the grounds that a prize-winning story was infringing "the policy and religious faith and national solidarity of the party and the government".

What worries the conservatives – understood to include Communist party secretary Do Muoi – is the potentially damaging social consequences of some market reforms and the possible erosion of the party's position.

"They're saying [reform is] the worst of all worlds," said one economist. "It's seen as representing the devaluation of 'socialist orientation', uncontrolled foreign investment and too much domestic business."

Diplomats and local economists say that the future direction of reform could hinge on the tenor of Mr Kiet's opening speech to the national assembly. "It's probably the most difficult speech he'll have to make," said the economist.

Mr Kiet is understood to be keen to push through the rubber stamp assembly higher growth, increased reform of the banking system, further restructuring of lumbering state-owned enterprises and increased mobilisation of the private sector.

The mood at the session is likely to be sombre. A press release issued last week by the standing committee of the assembly rapidly dispensed with the glowing rhetoric of previous years.

Deputy prime minister Phan Van Khai, an avowed reformist, was reported in the local press as having warned the standing committee of the national assembly last week at a preparatory meeting of "very heavy duties in the rest of the year".

Foreign investors say a sign that some sort of re-assessment was imminent has been uncertainty in the last four months over whether any more foreign banks would be licensed to operate branches in Vietnam. "No one is sure about the pace of progress," said one investor, who requested anonymity.

Vietnam has allowed branch licences to nine banks. US banks Citibank and Bank of America are believed to be on top of a waiting list of about 20 hoping for branch status.

Police in Karachi on alert after political violence

By Farhan Bokhari in Islamabad

Pakistani police and other investigation agencies were last night closely monitoring the security situation in the city of Karachi, where three days of violence this week have left at least 29 people dead.

Among the dead, 16 belonged to rival factions of the MQM (Mohajir Qaumi Movement), an ethnic party of Urdu-speaking immigrants from India, which split in a power struggle more than two years ago. The other 13 victims included three policemen.

The larger faction of the MQM has been involved in a bitter power struggle with members of a breakaway group which formed a separate party last year.

Members of the two factions have been targeting each other in sniper attacks and ambushes, in an effort to establish their authority in the city.

While the larger faction of the MQM still appears to have the support of a large number of people, it is not clear if either of the two sides is gaining ground decisively.

Efforts by the Pakistani government to negotiate an end to the violence have so far produced no results.

But the killings have once again sparked fears among the city's businessmen, worried that security fears will deter investors away from Karachi.

Senior officials say privately that at least part of the violence has resulted from the involvement of unemployed, educated youth.

The city has Pakistan's fastest growing population living in slums.

Push to bring inflation under control

Beijing slows reforms

By Tony Walker in Beijing

China is for the moment slowing the pace of economic reform while it seeks to bring inflation under control and head off possible social unrest, Chinese officials told a meeting of the World Economic Forum yesterday.

Senior Chinese officials, including Mr Wang Zhongyu, minister of the State Economic and Trade Commission, indicated that a need for stability was preoccupying the leadership, which he said, had made the anti-inflation fight its most important priority for the rest of the year.

A World Economic Forum official said after the two-day session organised by the Swiss-based consultative group and attended by government and business leaders that his impression was that the Chinese had entered a "period of pause. For the moment, what concerns them is taming inflation. They feel they need a period of slower growth rather than starting a new phase of reform."

China's State Statistical Bureau announced on Tuesday that the cost of living nationwide was 27.4 per cent higher in September than the same month last year. Economic growth for the past two years has averaged over 13 per cent. Growth of 11-12 per cent is forecast this year.

Beijing introduced price controls last month on staple foodstuffs in an effort to break the inflationary cycle. Food prices have risen sharply in the past year.

The World Economic Forum official noted that reformist impulses in Beijing had been subdued in comparison with last year, when Chinese officials were discussing ambitious plans for reform of the banking system and state enterprises. "Now," the official said, "there is a mood of consolidation and caution."

Officials had deflected questions about plans to force state enterprises into bankruptcy under a pilot programme announced earlier this year and meant to target some 100 faltering enterprises in 18 cities. The authorities have been reluctant to bankrupt enterprises because of fears of social unrest among laid-off employees.

Government economists estimate that of the 11,000 large and medium-sized state enterprises about one-third are in the red, with another one-third barely breaking even. The State Statistical Bureau said this week that in the first nine months of this year, some 44.5 per cent of state enterprises had made losses.

State-owned enterprises have been hard hit in a government austerity programme instituted in July last year and aimed at calming an overheating economy. Many enterprises are starved of working capital and in some cases are having difficulty paying employees.

Two Europeans slain in raid on Algerian oil site

Gunmen burst into an oil camp in eastern Algeria on Tuesday night and killed the only two Europeans there, officials and diplomats said yesterday, Reuter reports from Tunis.

The deaths of the two men, a Frenchman and an Italian, bring to at least 66 the number of foreigners killed in civil strife between Moslem fundamentalists and the army-dominated authorities.

In Rome, the Italian foreign ministry said a Somali was also killed at the camp near Tebessa, operated by Sonatrach, the Algerian state oil company. But in Algiers, an Italian embassy spokesman said he could not confirm this.

The two Europeans worked for Schlumberger, a French company, which named the Frenchman as Philippe Hetet, 36, and the Italian as Mauro dell'Angelo, 30.

The company said in Paris: "There were four employees at the site. They were attacked by a group of armed men. Two of the employees were killed."

The first foreigners were killed in September last year, shortly before the fundamentalist Armed Islamic Group (GIA) warned non-Algerians to leave the country or be killed.

The GIA, one of several groups battling to overthrow the authorities, sees foreign workers as supporting the government and the economy.

Italy's foreign ministry said the attackers burst into one of the oil company's buildings, set fire to it and told the Algerian nationals to flee. They then killed the others.

Last week, gunmen shot dead a South Korean businessman near his home in Bordj el-Bahri, about 25km east of Algiers.

NEWS: INTERNATIONAL

Hamas strikes new level of terror into heart of Israel

The attacks have now come to dominate the political agenda of both Yassir Arafat and Yitzhak Rabin, writes **Julian Ozanne**

The devastating bomb attack on a bus in Tel Aviv yesterday marks the increasing confidence and power of Hamas, the militant Islamic group, which has pledged to destroy the peace process, the state of Israel, and usher in an Islamic republic based on Koranic law.

An anonymous caller told Israel radio that the bombing had been carried out in the name of some 400 Hamas activists expelled by Israel for several months to a no-man's land in Lebanon in December 1992. He said he wanted to thank the government for deporting the Hamas members where they had received training in sabotage and explosives. "We know how to carry out attacks and we will carry out other attacks," he said.

The threat is very real. In the past fortnight, Hamas has struck a new level of terror into the heart of Israeli society: spraying a busy Jerusalem shopping promenade with bullets and killing two people; kidnapping and killing a 19-year-old Israeli soldier; and carrying out yesterday's attack in the commercial centre of Tel Aviv.

Its increasingly successful military campaign against Israeli civilians and soldiers has come to dominate the political agenda of both Mr Yassir Arafat, the Palestinian leader, and Mr Yitzhak Rabin, the Israeli prime minister.

The attacks have shown that Hamas has the political initiative and can influence the pace of the peace process. Furthermore it has now laid down an open challenge to Mr Arafat for the leadership of the Palestinian people and defied him to take repressive measures at the risk of civil war.

Experts on the extremist movement, which has a growing support base of between 20-40 per cent of Gaza's 850,000 residents, say Hamas does not want Mr Arafat and Mr Rabin to suspend the peace process.

Rather their strategy is to cripple it, thereby ensuring that Mr Arafat fails to deliver on his promises to his people of new jobs, alleviation of poverty and a gradual assumption of legitimate Palestinian rights. These include the return of Israeli-occupied land, the right of return of up to 4m Palestinian refugees and the establishment of an independent state, with Arab East Jerusalem as its capital.

Each time Hamas carries out an attack Israel seals off the Gaza Strip, preventing tens of thousands of Palestinians from travelling to their jobs inside Israel. Last week Israel briefly suspended peace talks following the kidnapping of the Israeli soldier. Such moves play into the hands of Hamas by showing Palestinians how weak Mr Arafat is, and how dependent on Israeli goodwill.

Israeli demands for Mr Arafat to smash the military wing of Hamas are also easily exploited by the Islamic group as Mr Arafat doing Israel's dirty work for them. Last week's mass arrests of Hamas activists in Gaza by Mr Arafat's security forces were met with demonstrations and riots, accompanied by threats of civil war. Hamas's military wing warned Mr Arafat that if he continued arresting its supporters it would reply "by setting the Gaza Strip ablaze".

Hamas continues to benefit from the very limited gains Palestinians have reaped from the peace process and the poor performance so far of the ineffectual Palestinian authority. Like other militant Islamic groups, Hamas thrives on despondency, poverty and the failure of secular Arab governments to restore pride and economic wellbeing to their peoples.

Many Palestinians feel Mr Arafat gave up the Palestinian struggle in return for a virtual bantustan in a part of the Gaza Strip and the West Bank town of Jericho. Months after the PLO was supposed to have taken over the West Bank and held elections, Mr Arafat's peace negotiators remain locked in negotiations with Israel in Cairo.

Furthermore, after three months in power, Mr Arafat has yet to put together a credible government capable of tackling the massive task of rehabilitating the derelict Gaza Strip and combating an unemployment rate of 40-50 per cent. Part of his failures are self-imposed – a result of centralisation of power and an aversion to transparent government. International donors, choking on their own bureaucracy, are also to blame for the slow drip of promised emergency funds.

As Mr Arafat struggles to deliver real economic and political change, Hamas continues to provide better services through its social welfare network of schools, clinics and kindergartens. Hamas also offers a strong moral message and a religious certainty in a period of upheaval and instability.

In a recent interview, Mr Mahmoud Zohar, a leading Hamas spokesman in Gaza, said his organisation welcomed the return of Mr Arafat to Gaza because his obvious failures would expose the moral, economic and political bankruptcy of secular Arab government and encourage Palestinians to turn to the Islamic solution. "Arafat's return hastens the coming of the Islamic state," he said.

But it is not just Mr Arafat's failings that contribute to the flow of recruits to Hamas. Hatred and suspicion of Israel remain deeply rooted in the hearts of many Palestinians. Even amongst PLO supporters, Hamas is viewed as a "liberation organisation", fighting a legitimate battle against continued Israeli occupation of their land and denial of their rights.

Mr Arafat will now come under renewed pressure from Israel to deal a decisive blow to Hamas. For Israel, peace means increased security. During last week's kidnapping crisis Mr Rabin said "Arafat must choose between making peace with Israel or making peace with Hamas". It is an acute dilemma for Mr Arafat, while still trying to find his feet as leader of a people in a nascent state. If Arafat does not move against Hamas he risks allowing Israel to continue dragging its feet in peace talks and thus ensuring the vacuum which Hamas so readily exploits.

Moslem and Jewish militants: the bloody path to peace

Hamas
Militant Palestinian Islamic organisation dedicated to destruction of Israel and creation of an Islamic state based on Koranic law. Emerged in 1987 at start of Palestinian uprising. Originally supported by Israel as a counterweight to PLO. Maintains a political wing, a big network of schools and clinics and an underground military wing known as the Izz al-Deen al-Qassam brigades, which claimed responsibility for yesterday's attack. Raises money from Palestinians inside occupied territories and in Jordan. Israel has never proved its claim that Hamas is financed by Iran.

1993

September-October
- Israel and PLO sign peace accord.
- Bloody clashes in Gaza in one of worst days of internal confrontation in recent years; three Israeli soldiers die.
- Two Hamas members killed by Israeli army.
- Israel and PLO begin talks on implementing Palestinian self-rule and Israeli troop withdrawal from Gaza and Jericho.
- Two Israeli soldiers abducted and killed by Hamas.
- Israeli soldiers kill two Palestinians.

November-December
- Hamas kills settler and injures former Israeli right-wing MP.
- Israelis kill two Hamas leaders.
- Settlers living around Hebron shoot into crowds of Palestinians; another settler fires at Arab taxi; at least six Palestinians killed.
- Guerrilla attacks bus near Tel Aviv; one Israeli dies later in hospital.
- Two Jewish settlers killed in Hamas ambush. Settlers riot.
- Settlers shoot dead three Palestinians in Hebron.
- Israel misses deadline for start of troop withdrawal from Gaza and Jericho.
- Two settlers killed by Arab gunmen.

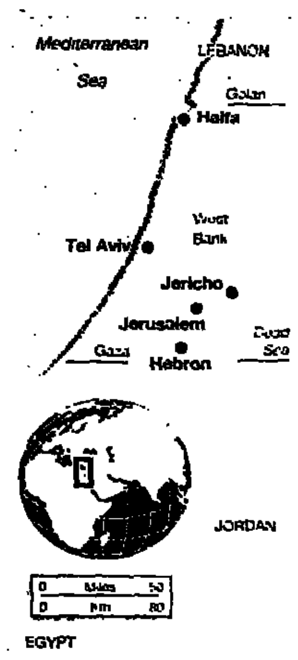
1994

January-March
- Israel and PLO reach partial agreement on implementing peace accord, focusing on border crossings of autonomous areas.
- Three Israelis wounded by Islamic militants.
- Settler sprays gunfire on kneeling Arab worshippers in a mosque in Hebron, killing about 30 before being beaten to death. Talks on Gaza-Jericho autonimous regions stalled for weeks.
- Israeli army kills four Palestinians in Hebron gun battle in Hebron; ensuing clashes leave another dead and at least 50 injured.

April-May
- Bus blast kills eight Israelis and wounds 45; suicide bomber dies; Moslem militants claim responsibility; occupied territories sealed.
- Bus blast kills five; Moslem militants claim responsibility; Israeli troops remain in Gaza and Jericho, no sign of observer force in Hebron.
- Israeli army rounds up more than 300 suspected Hamas supporters.
- Israel and PLO sign agreement for self-rule in Gaza and Jericho; Israel hands over military base in Gaza and the town of Jericho to Palestinian police.
- Two Israeli soldiers are killed in drive-by shooting in Gaza claimed by Hamas and Islamic Jihad. Right-wing Israeli politicians demand scrapping self-rule.

June-August
- Peres makes public a letter agreeing not to harm Palestinian institutions in Jerusalem; Israeli rightwing accuses government of laying groundwork for future Palestinian state with Jerusalem as capital.
- Settlers pour into Hebron and riot after an Israeli soldier and settler are killed by Arab guerillas.
- Arafat receives tumultuous welcome in Gaza on his historic homecoming.

September-October
- Israeli soldiers kill Palestinian after he stabs soldier in Hebron.
- Two Jerusalem residents killed and more than a dozen injured; Hamas claims responsibility.
- Nobel committee decides to award peace prize to Israeli Prime Minister Yitzhak Rabin, Peres and Arafat.
- Israel suspends talks with PLO following kidnapping of Israel soldier by Hamas extremists and holds Arafat responsible for safe return. Kidnapped soldier killed by captors, three of whom are killed in the clash with the Israeli army rescue team.
- Tel Aviv bus bomb kills at least 22 and injures about 40; Hamas claims responsibility; Israel seals off West Bank and Gaza.



Source: FT, Reuter

INTERNATIONAL NEWS DIGEST

NTT opens lines to other carriers

NTT, the Japanese telecommunications group, said yesterday it was willing to connect its domestic lines with other carriers, opening Japan's market to fresh competition.

NTT's president, Mr Masashi Kojima, told a news conference negotiations on cost sharing and other issues with new telecommunications carriers were still needed before the lines were connected. But he said: "NTT has said to all operators that its basic stance is that it is willing to connect its lines to every operator if there are such requests." Mr Kojima made his announcement a day after one of the new carriers, Japan Telecom, requested government intervention to resolve a two-year-old dispute over opening up NTT's call lines. Mr Kojima said: "We hope we can settle the issue soon, possibly within 10 days, without troubling the minister of posts and telecommunications." *Reuter, Tokyo*

Hint of Australian rates rise

Mr Bernie Fraser, governor of the Australian Reserve Bank, yesterday foreshadowed another increase in interest rates as a way of maintaining an underlying rate of inflation of 2-3 per cent for the rest of the financial year 1994-95.

"I am confident appropriate adjustments will be made in monetary policy that will deliver a 2-3 per cent underlying rate of inflation," he told a federal parliamentary committee. Mr Fraser also said the government could do better to reduce its forecast budget deficit for 1994-95. The budget has estimated a deficit of A$11.7bn (£5.8bn) for the year, representing 2.5 per cent of GDP. He warned a better performance on the fiscal side did not reduce the need to tighten monetary policy when necessary. A strong jobs growth reported last week had intensified pressures on the government to raise interest rates. More than 75,000 new jobs were created in September, reflecting an acceleration in economic activity. *Emilia Tagaza, Melbourne*

Kuwait compensation appeal

Iraq's latest threatening moves towards Kuwait have deprived the UN of badly needed funds to pay compensation to victims of its 1990 invasion – by ensuring the UN embargo on Iraqi oil sales remains in place, a senior Kuwaiti official said yesterday. Mr Abdul Rahman al-Houti, chairman of Kuwait's public authority for assessing compensation, appealed to countries holding Iraqi assets to transfer 30 per cent of the funds to the UN compensation commission so that urgent claims can be paid. The commission, meeting this week in Geneva to assess claims from those forced to flee Kuwait and property claims below $100,000, has paid out less than $3m (£2m) so far. Total claims to the Commission amount to nearly $170bn, including Kuwaiti claims of over $102bn. *Frances Williams, Geneva*

South Africa blocks land deals

Mr Derek Hanekom, South Africa's land minister, yesterday announced the withdrawal of authorisation for land transfers to leaders of the former black homeland of Lebowa who had allegedly bought large amounts of state-owned land for personal use. The move was a response to claims on Tuesday that tens of thousands of hectares of land in the former homeland had been privatised and handed over to tribal chiefs immediately before last April's elections, when Lebowa was formally reincorporated into South Africa. The money used to pay for the land allegedly came from a special government fund that had been budgeted for drought relief for local farmers. The controversy highlights the problems facing the government as it starts to grapple with the politically divisive issue of land redistribution. *Mark Suzman, Johannesburg*

Singapore curbs on credit cards

Singapore has imposed curbs on credit card advertisements in an attempt to encourage thrift among its people, officials said yesterday. The Monetary Authority of Singapore has told banks that their advertisements for credit cards cannot include gifts, special discounts and incentives that encourage consumer spending. In an earlier crackdown, the MAS – the equivalent of a central bank, ruled in September that any bank or financial institution that issued unsolicited, pre-approved credit cards faced a fine of $3,500 (£2,330). *AP, Singapore*

NEWS: THE AMERICAS

US trade deficit narrows to $9.7bn in August

By Nancy Dunne in Washington

The US trade deficit for goods and services narrowed to $9.7bn in August, but the merchandise trade deficit was the second largest since July 1987 at $14.3bn.

US exports of aircraft and capital goods helped boost foreign sales of goods and services for the month to a record $59.8bn, up from $56.3bn in July. Imports rose too, but more slowly, from $67.5bn to almost $69.6bn.

Mr Ron Brown, the US commerce secretary, said substantial jumps in exports of aircraft, motor vehicles and parts were "rebounds from unusually low levels in July related to planned shut-downs in some aircraft and auto plants."

He said the growth trend in exports "reflects both the underlying competitiveness of the US export sector and accelerating recoveries in some of our major trading partners. In particular, our goods trade deficit with western Europe declined by $748m in August."

For the first eight months of 1994, the trade deficit rose by 51 per cent over the same period a year ago – from $47.76bn to $72bn. Any significant improvement will require a narrowing of the bilateral deficit with Japan.

Instead, the gap has continued to rise, hitting $41.9bn during the first eight months of the year, compared with $37bn during the same period of last year. US officials have been warning Japan for months that the deficits are "politically unacceptable."

Any slowdown in the US economy next year could produce new calls for import curbs on Japan from the new Congress. Mr Lawrence Chimerine, chief economist with Economic Strategy Institute, a Washington think tank, attributed the rise to record volumes of imports and "only a limited acceleration" of US exports to Japan.

"Earlier predictions of a decline were incorrect because they did not factor in that the US cannot produce many of the products it buys from Japan and that Japanese companies are not raising dollar prices in proportion to the strong yen," he said.

Deficits were also recorded with China ($3.2bn), Opec countries ($1.8bn) and western Europe ($1.6bn). Surpluses were achieved with Australia ($0.7bn), Argentina ($0.2bn), and Egypt ($0.2bn).

Merrill Lynch economists yesterday predicted improvement, saying: "Europe and Japan are coming out of their slumps and should grow faster than the US next year for the first time since 1990. That should lead to rising US net exports and a shrinking US current account deficit."

To stay in power, Aristide will have to win the countryside, writes **Ted Bardacke**

Where Haiti's rulers are made or broken

If Haiti's newly re-instated President Jean-Bertrand Aristide is going to stay in office, the politics of his survival will have to be played out largely in the country's devastated rural areas.

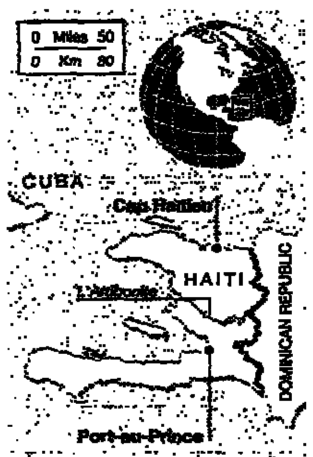
Seventy-five per cent of Haiti's population live in the countryside where successive governments have used their control of land tenure, especially in the rice-producing Artibonite valley where nearly all the country's irrigated land is located, to enrich their supporters.

President Aristide is expected to nurture his constituency there too, but his still sketchy agricultural policy and the skewed rural economic patterns caused by military rule and the embargo will make it difficult. The military government, which held power for the past three years, virtually abandoned the valley, preferring to make money from controlling both legal and contraband rice imports.

Before the military, François "Papa Doc" and later his son Jean Claude "Baby Doc" Duvalier siphoned off the spoils of the valley into their paramilitary force, the Tontons Macoutes and set off a migration of peasants into the shantytowns of the capital Port-au-Prince. There they formed the backbone of the popular organisations that spearheaded Baby Doc's downfall in 1986.

VIOLENCE continues: a Haitian mob chases and beats up a suspected paramilitary

AP



Although Baby Doc had initiated a World Bank-designed economic reform package in 1982, import permits were still needed for rice and other grains and were difficult to obtain. However, the government that replaced him, led by General Henry Namphy, under pressure to be recognised by the US and maintain the flow of foreign lending, opened the country to rice imports, setting off a guerrilla rice war of roadblocks and shootouts.

By the time of Mr Aristide's election in 1990 rice imports from the US were worth $39m (£24.6m) annually and satisfied a quarter of domestic demand. The peasant groups involved in this rice war were the main supporters of the *lavalas* (flash flood) movement that swept Mr Aristide to power.

President Aristide's first government attempted to wrest political power away from the military-appointed rural strongmen, but did not touch their economic power by promoting land reform. According to some of his rural supporters, President Aristide lacked a coherent agricultural policy and therefore the country remained open to rice imports, hurting lavalas's ability to transform itself into a workable governing coalition.

"The Artibonite is where you make or break a government in Haiti," says Mr Anil Juste, an agronomist and historian of the valley. "If you can control the production and distribution of rice you can control the country."

But President Aristide will find controlling the valley an awesome task. Land disputes are ongoing and violent, as no one knows who has the right to farm what plots and there is no working system of land titles. The government owns most of the land but has in the past rent it for nominal sums to powerful allies who in turn rented tracts to local peasant sharecroppers. Some plots changed hands as many as three times a year and planting an area did not guarantee the right to harvest it.

"The first thing people will do when the embargo is lifted and the price of cement falls is build walls around land they control but do not necessarily own," says an agricultural official. "Aristide may try to help the peasants through credits and such but land reform is out of the question. How do you know what land to give away if you don't know what land you have?"

Annual rice production has fallen from 125m tonnes during Mr Aristide's year in office to less than 80m tonnes since the embargo was imposed. The emergency food aid that flooded the cities during the embargo have meant that much of the rice produced in the valley had no market, according to officials at the *World Food Programme*.

In an effort to jump-start production, the Inter-American Development Bank has earmarked more than $17m for rehabilitation of the irrigation system in the Artibonite, while the World Bank has a long-term project to map the area to settle land disputes.

In return, international lending agencies are expecting that President Aristide, as he has publicly pledged to do, will keep the country open to food and other imports. Tariffs on legally imported rice will be cut in half "for a transitory period" until being eliminated altogether, according to the Aristide economic plan approved by lending agencies.

There is a consensus among agricultural economists that even as Haiti increases its rice production it will need to maintain rice imports to feed its population. But Mr Juste says President Aristide has not decided what kind of political alliance he wants to build in the Artibonite. "There is a vacuum of agricultural policy that will be filled quickly by the World Bank and the IADB," he says.

Mr Juste and others in the valley still too afraid of repressive measures to give their names say the productive programmes of the multilateral institutions can help construct democracy in Haiti only if they put a premium on helping small producers while breaking the grip of landholders who have become accustomed to making money off rents and political power rather than from producing food.

Canada seeks to make big spending cuts

By Bernard Simon in Toronto

Mr Paul Martin, Canada's finance minister, has given notice that hefty public spending cuts will be the prime tool to reach the Liberal government's deficit-reduction targets.

He told the House of Commons late on Tuesday he was determined to cut the federal budget deficit to 3 per cent of gross domestic product by the fiscal year ending March 31 1997, from 5.4 per cent this year.

"It is a target we will meet, come hell or high water," Mr Martin said.

The target implies a reduction in the budget deficit from a projected C$39.7bn ($29.6bn) in the current fiscal year to about C$25bn in 1997. Mr Martin estimated the government needs about $3.1bn in spending cuts or tax increases next year and another C$6.3bn in 1996/97. He plans specific proposals in his next budget, due in February. Business leaders have pinpointed the budget is seen as a critical test for investor confidence in Canada.

Together with Italy and Sweden, Canada has the heaviest debt burden among industrial countries.

Interest payments are projected to reach C$47.3bn this year, over a quarter of total federal spending.

Financial markets are likely to focus on Ottawa's willingness to take the axe to federal social programmes, which consume about one-quarter of this year's C$166bn budget, and on transfers to the provinces for health, welfare and education, totalling C$27bn.

The government published a discussion paper on sweeping social-security reform this month. It contained few specific proposals, but it has run into strong criticism from other political parties, special interest groups, and the 10 provinces, which would be directly affected by federal spending cuts.

The business community has generally applauded Mr Martin's stand. But some observers are concerned that his cabinet colleagues may be less enthusiastic about painful and unpopular cuts.

Sharp decline in Mexican reserves

By Damian Fraser in Cancún

Mr Miguel Mancera, governor of Mexico's central bank, announced yesterday that the country's foreign currency reserves had fallen to $17.2bn (£10.8bn), $7.3bn less than at the end of last year.

The reduction since December follows central bank intervention to defend the peso after the assassination of presidential candidate Mr Luis Donaldo Colosio and subsequent nervousness over the August presidential election.

Reserves were reported to have been as high as $28bn in early February, indicating the extent of Bank of Mexico's support for the currency.

Mr Mancera said at a bankers' conference in Cancún that intervention since May had been sporadic and in small quantities and that reserves have been relatively stable since then.

Mexico's foreign currency reserves are published only three times a year, and are considered an important indicator of confidence in the currency. Despite central bank intervention, the peso has lost nearly 10 per cent of its value against the dollar this year and is now trading close to its lower limit against the US currency.

MPs decide against probing Thatcher son

By James Blitz and Jimmy Burns

One of parliament's most powerful select committees yesterday decided not to investigate allegations that Mr Mark Thatcher, the son of the former prime minister, received £12m ($19m) in commission from an arms deal negotiated by the British government in the 1980s.

As Labour MPs continued to put pressure on ministers to reveal more about the Al-Yamamah deal forged by the UK and Saudi Arabia in 1984, the all-party public accounts committee agreed that an investigation of Mr Thatcher's involvement would be outside its remit.

Mr Robert Sheldon, chairman of the committee, is understood to have told MPs at yesterday that the committee could examine only issues affecting taxpayers' money. He said newspaper allegations about Mr Thatcher had shown no impropriety as far as public money was concerned.

Mr Sheldon told MPs that there would be no change in his decision to withhold publication of a report by the National Audit Office into the UK-Saudi arms deal. He assured MPs that the office's report contained no reference to Mr Thatcher.

As Labour MPs continued to raise questions about the Al-Yamamah deal, Mr John Major, the prime minister, insisted yesterday that there was no substance to allegations in a confidential document that Mr Thatcher had profited from the contract.

● A parliamentary inquiry into allegations that Tory MPs received cash for tabling parliamentary questions was in chaos last night after seven Labour MPs withdrew in fury that it would not be open to the public.

As the government faced mounting pressure over accusations of "sleaze" the MPs – who make up the Labour contingent on the powerful committee on privileges – protested that justice had to be seen to be done.

The all-party committee, which examines cases of parliamentary misconduct, is due to interview two Tory MPs over reports that they received £1,000 in return for tabling parliamentary questions. The two MPs have denied the allegations.

Mr Tony Blair, leader of the opposition Labour party, yesterday sought to put it on a "war footing" against the "ruthless and unprincipled" Conservatives in his first speech to MPs since becoming party leader.

In a morale-boosting address to a crowded meeting at Westminster, Mr Blair promised "inclusive" leadership in return for strong support and strict parliamentary discipline.

His remarks were seen as an attempt to ease tensions between modernisers and traditionalists ahead of a shake-up in the shadow cabinet planned for later today.

Mr Blair told MPs that the run-up to the general election had begun, and warned them to avoid complacent acceptance of the party's commanding lead in the opinion polls.

In a clear indication of his confidence in the party's ability to take the fight to the Tories, he said there were "no no-go" areas, even on issues not traditionally regarded as strong Labour territory. "We are up against a ruthless and unprincipled party."

Ban on Adams may soon be lifted

By David Owen

The government is poised to lift exclusion orders banning Mr Gerry Adams and other prominent members of the nationalist Sinn Féin in Northern Ireland from visiting the British mainland.

The move is likely within days and would be part of the government's staged response to the IRA ceasefire in Northern Ireland.

The decision may be agreed at a meeting of Mr John Major and cabinet colleagues today. Ministers will use the meeting to conduct a detailed stocktaking of the situation in Ulster after last week's loyalist ceasefire.

London is considering opening a "reversible" dialogue with republican leaders. Senior ministers have come to recognise that they may never be given an unequivocal pledge that the IRA ceasefire is permanent.

Ministers have acknowledged that such talks could be under way by Christmas. Sir Patrick Mayhew, Northern Ireland secretary, said last week that the loyalist ceasefire made it harder for the IRA to return to violence. Moderate unionists, whose support for the peace process is vital, are not expected to object to an early move to lift the exclusion orders because many see them as a denial of the integrity of the union between Northern Ireland and the rest of the UK.

The exclusion order against Mr Adams, the Sinn Féin president, was made last October under a law of 1989. The government refused in January this year to revoke it.

John Toner, manager of Belfast's refurbished Europa hotel, yesterday. He said it had been bombed 32 times since 1971

UK ECONOMIC DIGEST

Retail sales rise beats forecasts

UK retail sales rose faster than City of London expectations last month, but official figures released yesterday indicated that shops were having to cut prices to attract customers. Sales volumes rose by an estimated and seasonally adjusted 0.5 per cent between July and August, outpacing City forecasts of 0.3 per cent. The government's Central Statistical Office said volumes were also 3.7 per cent higher than in the same month last year. The volume of sales was largest in food, clothing and household goods, where price competition and discounting is fiercest.

Such pricing strategies appeared to affect the seasonally adjusted values of retail sales, which rose at almost the same rate as volumes, by 3.9 per cent from the same month last year. Mr Richard Brown, deputy director-general of the British Chambers of Commerce, warned that retailers were achieving volume increases by aggressive discounting. "Retail sales growth is being bought at the expense of profitability," he said.

Mr John Major, the prime minister, said in Birmingham that the foundation had been laid for "the most sustained growth with low inflation that this country has ever seen in the post-war period". He said the absence of a "feelgood factor" was a good sign, because "feelgood factors" were "usually a prelude to a hangover".

House prices set to recover

House prices are poised to stage a modest recovery, increasing by 6 per cent by the end of next year and rising by almost 50 per cent by the end of the decade, says a forecast from UBS, the broking group. It said the increases would still "represent the weakest housing recovery since the second world war."

Even so, UBS expects prices to outpace income growth, forecasting an average rise in house prices of 8 per cent a year to the end of the decade, when the average price of a home would be £92,000 ($145,360).

Government borrowing falls

An unexpected boost in tax receipts brought government borrowing down to £4.08bn ($6.44bn) last month, edging slightly below City forecasts of £4.3bn. September's figure brings the public sector borrowing requirement for the first six months of the financial year to £19.5bn, down from £23.9bn in the same period last year, indicating that the Treasury is still well on course for its forecast of £36.1bn for the PSBR in 1994-95.

Receipts from taxes, excise duties and other income totalled £19.26bn for September, representing a 20 per cent increase from £16.11bn in the same month last year.

Manufacturing orders buoyant

Manufacturing companies are enjoying buoyant domestic orders and are planning to invest more in plant and equipment, says the latest survey from the British Chambers of Commerce. But the proportion of companies working at full capacity has jumped sharply and is not far short of the pre-recession levels reached in 1989.

Tanks group to shed 235 jobs

Vickers, the supplier of tanks to the British army, is to cut a total of 235 jobs at its twin plants in Leeds and Newcastle upon Tyne, and 65 jobs are to go from Newcastle-based International Research and Development, part of Rolls-Royce Industrial Power Group.

Samsung faces plea to recognise a union

Union leaders agreed yesterday on a united approach to attempt to persuade South Korean industrial group Samsung to recognise a union at its new £450m Cleveland electronics complex, Chris Tighe writes.

The northern region Trades Union Congress executive agreed at its monthly meeting that the TUC, on behalf of all member unions, should approach Samsung.

Union leaders in the region hope the company, which expects to employ 3,000 people at its new Wynyard complex, will agree to recognition of a single union, in the way Nissan did when it selected nearby Sunderland as its European car plant site a decade ago.

The collective approach is intended to avoid a union free-for-all. The unions said they had worked closely with the team of agencies which helped win the Samsung project.

Initial indications from Samsung are not encouraging for the unions; at the company's television plant in Billingham, Cleveland, there is no union. "We don't believe a union is necessary," said Mr Walter Measor, general affairs director of Samsung Electronics Manufacturing UK.

Lloyd's keen on out-of-court deal

By Ralph Atkins
Insurance Correspondent

Lloyd's of London is prepared to make a fresh attempt at reaching an out-of-court deal between loss-making Names and the professional agencies they are suing, Mr Peter Middleton, chief executive of the insurance market, indicated yesterday.

If there is a "strong mood and some optimism" that a deal is possible, he and Mr David Rowland, Lloyd's chairman, "will do everything that we can to see that that settlement is reached," Mr Middleton said.

His comments, at a conference organised by accountancy and banking company Smith & Williamson, followed the opening this week of the latest court battle mounted by Names, whose assets have traditionally supported the insurance market.

The Feltrim Names Association is claiming £525m in damages for losses incurred in the late 1980s as a result of "spiral" insurance by which underwriters agreed to cover others for excessive losses from catastrophes.

Earlier this year Names rejected a Lloyd's settlement offer worth £900m. Subsequently the Gooda Walker action group won damages it says are worth £504m.

Mr Middleton believed the Gooda Walker case had not acted as the catalyst for an out-of-court settlement for other legal actions largely because the level of damages had yet to be agreed. A final level may not be set for some weeks.

But he said that "in a couple of weeks" he and Mr Rowland would assess the strength of support for a deal among Names' groups and the errors and omissions insurers, who provided Lloyd's managing and members agencies with cover against negligence awards.

The insurers feel that the action groups may have to accept that they will never recoup a large part of their losses – because the errors-and-omissions cover is not sufficient and much of it is underwritten by other Names.

Mr Rowland and Mr Middleton, who are keen to mark a break from Lloyd's past losses, are reluctant to make an enhanced central contribution to any settlement offer. But there is optimism among Lloyd's authorities that it may be possible to strike a deal before the end of next year.

By then Lloyd's hopes to have established Newco – a company set up to take on the liabilities outstanding from policies written in 1985 and before, including many US asbestosis and pollution claims. That may clarify the position of many Names.

Treasury wants to hand tasks to SIB

By Norma Cohen, Investments Correspondent

The Treasury has proposed devolving more of its regulatory powers to the Securities and Investments Board, the chief regulatory body for financial services. At the same time, it wants to take on additional duties regulating occupational pensions and insurance.

The Treasury's proposal to devolve more of its duties to SIB is seen as a vote of confidence in SIB's activities, which have aroused antagonism from some parts of the financial services industry.

The Treasury yesterday proposed three key areas in which it felt SIB could expand its role. The Treasury said its director of finance regulation and industry should review whether additional work could be passed to SIB without primary legislation.

In particular, the Treasury would pass to SIB the day-to-day responsibility for overseeing the listing department of the London Stock Exchange, a move which would make SIB more like the Securities and Exchange Commission in the US.

However, such a development is unlikely to be welcomed by the London Stock Exchange, which is already under pressure from SIB to alter some of its rules on the transparency of transactions.

Moreover, the move would create additional expense for the stock exchange because unlike the Treasury whose costs are paid for out of tax revenues, SIB must recover the costs of its oversight from the regulated bodies themselves.

The Treasury also said it would like to pass to SIB responsibility for determining whether the rules and operation of overseas exchanges that wish to conduct investment business in the UK are as rigorous as those of domestic exchanges. While SIB already has a consulting role in making such decisions, the Treasury is the final arbiter.

Also, the Treasury has proposed that SIB take on responsibility for determining which territories offer equivalent investor protection to that in the UK. Investment businesses from equivalently regulated territories may be allowed to operate in Britain.

Senior Treasury officials had been hinting for months that they believed that responsibility for regulation of occupational pensions and prudential supervision of life assurance companies should be concentrated in its department.

Yesterday's document said: "In particular we see considerable logic and attractions in the suggestion that the Treasury might eventually take on more responsibility, for example, for the regulation of pensions and insurance. Such a move would bring responsibilty for regulating all the key financial institutions and markets into one department, the Treasury."

Sources familiar with the Treasury plans said that the department expects to provide oversight for the proposed new Occupational Pensions Regulator to be created through legislation later this Parliamentary session. Currently, responsibility for occupational pensions rests with the Department of Social Services, while the Department of Trade and Industry is responsible for the prudential supervision of life insurance companies.

Aim

The Treasury's overall aim is to promote rising prosperity based on sustained economic growth

Mission statement

In seeking to meet this aim we will:
- maintain a stable macroeconomic environment;
- improve the long-term performance of the economy and the outlook for jobs, in strategic partnership with others:
- maintain a professional, well motivated and outward-looking organisation, committed to continuous improvement

Stoical bureaucrats await axe

Stiff upper lips were in evidence yesterday at the Treasury as officials reacted philosophically to news of job cuts, Peter Marsh writes.

"One has got to be intellectually honest about this," said one official whose job is in the firing line. "There are one or two details about the proposals which I disagree with, but the overall goal of cutting down on management layers in the civil service is something hard to argue against."

Such stoicism was the order of the day throughout the department, with officials mindful that the medicine they are being forced to swallow is precisely the stuff they have dosed out to other government departments for a decade.

"A lot of people can see the logic behind the moves, even if the costs in human terms are uncomfortable," said another high-ranking civil servant.

There was some concern, however, that the proposals may jeopardise the tradition at the Treasury that promising young officials can expect promotions over an unbroken civil service career. "Anyone in the bottom layers who saw themselves as having a job for life is bound to be disappointed," said a long-standing Treasury official.

Top official speaks of 'stressful period ahead'

By Andrew Adonis

Sir Terence Burns, the Treasury's top civil servant, was frank yesterday about the prospect of job cuts. "We shall have a difficult and stressful period ahead," he wrote to staff.

One senior official likened the impact of the report about restructuring to that of the visit of the International Monetary Fund in 1976, the crisis year of the last Labour government.

Behind the cuts lies a radical reorientation of the Treasury's activities. The number of directorates will be reduced from nine to seven, with a lesser emphasis on economic forecasting and a large reduction in the effort the Treasury makes to "shadow" the spending departments.

Even Conservatives close to the Treasury are divided about the plans. Mr Andrew Tyrie, an adviser to both Lord Lawson and Mr John Major in their periods as chancellor of the exchequer in the Thatcher government, said: "Unlike much of the civil service the Treasury ain't broken, so there must be doubts about the wisdom such a fundamental cull."

By contrast Mr Graham Mather, president of the European Policy Forum and a Tory member of the European parliament, said the proposals represented a "historic opportunity" to reshape Whitehall and strip out unnecessary administrative tiers. He likened the review to the radical Treasury-driven reform process in New Zealand, which has led to senior officials serving on individual contracts tied to performance targets.

For most observers the key issue is whether the reforms will limit the Treasury's capacity to control the spending departments. The review insists the Treasury must "continue to exercise the firmest possible control over public expenditure" but can do so without the "current panoply of detailed controls over departmental gifts, ex gratia payments, projects and so on."

Stores chief admits supermarkets have been 'greedy'

By Neil Buckley

The chairman of Britain's biggest supermarket group has admitted that big food retailers were "greedy" in the 1980s and allowed prices for basic foods to "drift upwards", opening a gap for cut-price discount chains.

The comments from Mr David Sainsbury, chairman of J. Sainsbury, came as Mr Henrick Gundelach, managing director of Netto, the Danish discounter which has been operating in the UK since 1990, said that discount competition in the grocery market would increase.

He told a conference organised by Verdict, the retail research group, that the number of discount chains would increase from four to between eight and 10.

Mr Sainsbury suggested that big grocery retailers had been wrong to desert town centres, and were finding new ways of trading successfully from high-street stores as well as from the greatly increased number of out-of-town superstores.

Mr Sainsbury said at the annual convention of the Institute of Grocery Distribution that in their rapid expansion since the mid 1980s grocery retailers had "allowed the pendulum to swing too far in two areas".

He said: "The major food retailers in the 1980s concentrated heavily on meeting the increasing demands of customers for convenience, service and quality, and in so doing we allowed the prices on some basic commodities to drift upwards."

His remarks broke something of a taboo. Superstore chains such as Sainsbury, Tesco and Safeway, owned by Argyll, have always strenuously denied accusations that they "overcharged" customers, allowing them to make "excessive" profits in the late 1980s and early 1990s. The accusations resulted largely from the fact that the retailers' operating profit margins were three or four times those of continental European food retailers, at up to 8 per cent.

But superstores did not achieve such margins by putting a few pence on a packet of sugar or a carton of milk.

They achieved them partly by expanding their ranges to include a far bigger proportion of high-margin goods.

At the same time retailers reduced costs by exploiting the economies of scale of larger stores, centralising their distribution through large regional warehouses and investing in check-out scanning and powerful computer systems.

His comments help explain the so-called "price war" in the grocery market over the past year. While there have been promotions on other products, superstores have focused on cutting prices on basic goods in an effort to squeeze out the discounters.

But while skirmishing on basic food prices goes on, superstore groups are continuing to emphasise advantages ranging from choice and quality to large car parks and baby-changing facilities. By continually adding higher-margin products and services, superstore groups are limiting the damage done to overall gross profit margins by price competition on basics.

That ability to protect margins enabled Mr Sainsbury, along with Mr David Reid, finance director of Tesco, and Mr Colin Smith, chief executive of Argyll, to predict that the long-term outlook was bright for the big groups.

All three admitted that it was becoming far more difficult to win planning consent for out-of-town stores. They suggested superstores were moving from their "expansion" stage to "maturity".

Superstore growth

Year	Stores total
1984	396
1986	432
1988	500
1990	644
1992	803

Superstore = retail outlet with at least 25,000 sq ft selling space on one level Source: Verdict

UK NEWS DIGEST

Biggest cable TV franchise unveiled

The Independent Television Commission is to advertise the largest cable franchise in the UK – covering all of Northern Ireland. The announcement was made by Sir George Russell, commission chairman, in Belfast. The franchise, which will almost certainly offer telecommunications services as well as extra channels of television, will cover about 530,000 homes. Until now the west Midlands cable franchise covering 490,000 homes was the largest.

Bidders for the Northern Ireland "local delivery licence" will not be required to cable the entire province. They will, however, have to say what parts of the area they intend to serve, by what means and by what timetable. Under the 1990 Broadcasting Act, cable licences normally go to the highest bidder. In addition to the bid price, a franchise operator has to pay 2 per cent of qualifying revenues for the final five years of the 15-year licence.

Tribunal urged for fraud cases

A tribunal to deal with all criminal, civil and regulatory aspects of serious fraud was called for yesterday by the former judge in the Guinness trials. Lord Justice Henry, who presided over the trials arising from the 1986 Guinness takeover of Distillers, said at a conference that the need to avoid duplication of investigation and adjudication in white-collar crime pointed to the creation of "forensic one-stop-shopping" for fraud cases.

He said issues of guilt, punishment by imprisonment or fine, civil liability, payment of damages and restrictions on companies' ability to continue in business should all be adjudicated in one process. The closest the western world had to such a model was the Securities and Exchange Commission in the US where, within a statutory framework of racketeering laws much more hostile than anything in the UK, a commission suggestion of a plea-bargain became an offer the defendant could not refuse. The US system was "brutal but effective".

Controls for weapons plants

The atomic weapons establishments at Aldermaston and Burghfield, about 40 miles west of London, are to be subjected to licensing by the Health and Safety Executive. Mr Roger Freeman, a defence minister, said the government accepted "in principle" the executive's recommendation that the plants' immunity from safety licensing should be removed.

The announcement followed the release on Monday of the executive's first published annual reports on four nuclear weapons plants. Officials said the introduction of licensing was intended to reassure local residents that everything possible was being done to maintain safety at the plants. The executive's report about Aldermaston disclosed that production of warheads for the Trident submarine system was shut down last year after an incident during manufacturing.

800-mile heritage trail launched

An 800-mile heritage trail stretching from the Republic of Ireland through Wales and England to Normandy was launched at Stonehenge yesterday by Viscount Astor, the minister responsible for improving facilities at the ancient stone circle. The trail will link 50 heritage sites between Lismore in southern Ireland and Gaillard in France, once the seat of King Richard "the Lionheart". "The trail helps to meet the need to develop untapped tourism potential without destroying the natural and cultural heritage which is co critical to generating tourism in the first place," said Lord Astor.

MANAGEMENT: MARKETING AND ADVERTISING

Ratings rumpus

Emiko Terazono and Diane Summers on controversy in Japan over new plans for monitoring television viewing

A recent announcement by AC Nielsen Japan, the Japanese arm of the US marketing and television ratings group, is causing havoc among the country's television and advertising communities.

At issue are the company's plans to launch next month a television ratings system using the so-called people meter, which measures ratings based on individual viewers' opinions.

Although Japan's television advertising market is the second largest in the world, with turnover last year totalling Y1,589bn (£10bn), Japan is one of the few countries where television commercial rates are still based on household ratings.

Nielsen's announcement has stoked up the debate between the country's corporate advertisers, which are eager for more detailed and timely information, and the television networks, which are trying to stop the move.

Companies' needs for more detailed data on who is watching what have been heightened by the downturn in Japanese corporate earnings and lower advertising expenditure. "Our advertising budget has fallen around 30 per cent since 1990, so we would be interested in getting information on individual viewers," says Toyota Motor, the leading car maker.

Under the household ratings system, automated data is relayed from 3,600 households across the nation. But the information does not help companies that want to target consumers of particular age or gender group. "In an age where a household has about four television sets, household-based ratings are really of no use," says Shiseido, the country's largest cosmetics company and a leading advertiser.

The system is supplemented by individual ratings based on diaries in which viewers indicate the channels they watch. However, the Japan Advertisers' Association (JAA) claims the figures are useless because the diaries are filled in during just one week a month and rely heavily on viewers' memories.

Nielsen's people meter, by contrast, requires every viewer to push a button on top of the TV set each time he or she watches television. Each member of a "Nielsen family" will have a separate button and a heat sensor will warn viewers by beeping if the number of buttons pushed and the number of people in front of the set do not match.

The television networks, meanwhile, which are also irritated that Nielsen had failed to consult them before its announcement, argue that the people meter is an imperfect tool, and refer to developments in the US, where American networks are questioning the system's accuracy. They further argue that the people meter still relies on the viewers' diligence to press the machine's buttons.

According to Brian Roberts, managing director of AGB Television, the company that operates a "people meter" for the BBC and ITV in the UK very similar to Nielsen's controversial Japanese model, much depends on how scientifically the sample of television viewers is selected and how well these viewers are instructed in how to use the meter.

AGB is now also able to log "time-shifted" programmes on its model of the people meter. "If you record a programme and play it back within seven days, our clever probes pick that up," he says. Official British viewing figures now include this "off-air" viewing.

The main problem in monitoring television viewing in the future is going to be keeping track of which station a set is tuned to – with the proliferation of cable channels, this is already a problem in the US.

AGB Television recently unveiled a new "picture-matching" system that will work by collecting samples of digitised television pictures, rather than relying on measuring the frequency of the signal – an increasingly complex task, with so many channels now in existence and frequent changes in frequencies.

The ultimate dream of advertisers must be "passive metering" – a machine that will be able to tell for itself who is sitting in front of the TV. Roberts believes that this technology will be expensive to develop and is still some way off.

He also considers that passive metering would give researchers little more information than they get now with the people meter, and that the technology could be seen as unacceptably like having Big Brother in the homes of sample viewers.

The issue in Japan, however, is more than just a simple technological debate. Behind the wrangling is an attempt to prise open the ratings market, which is effectively controlled by the television networks, by Dentsu and Hakuhodo, the two largest advertising agencies, and by Video Research, the ratings agency which has a virtual monopoly in its field.

Given the influence that ratings have over programme schedules and advertisement rates – not to mention expensive ratings service fees – corporate advertisers are happy to lend their support. Foreign advertising agencies, trying to gain a foothold, are also behind the move.

For Nielsen, the move is a big step in trying to regain a foothold in the ratings business. Although the company first introduced to Japan the concept of television ratings in 1960, it lost out when Video Research was set up by the networks and advertising agencies two years later.

There is also much at stake for the advertisers, which have taken a risk by confronting Dentsu and Hakuhodo. According to brokers James Capel in Tokyo, these two handle more than one-third of all advertising budgets in Japan. "To sever a relationship with the two agencies will have grave repercussions since they usually control the best advertising slots and have a lot of information which we would miss out on," says an advertiser.

For many companies, television remains the most effective medium to reach consumers. The negotiations between the networks and advertisers have so far been handled delicately.

Akihiro Ito, secretary-general of the JAA, says the association will now stand back and wait for the outcome of Nielson's launch next month.

However, the broadcasting association – which has so far failed to dissuade Nielson – plans to keep up the pressure and will announce a statement of its opposition before the launch of the people meter.

A battle over 7m merchants

Richard Tomkins on US advertisers' public feuds

Comparative advertising, they call it: promoting your products by doing down a rival's. But in the US, where the practice seems to have taken a particularly nasty turn, one recent campaign might better be described as a bare-knuckle fight.

For the last three weeks Visa International and American Express, two of the world's biggest payment card organisations, have been conducting a public slanging match in which they have used full-page newspaper advertisements to abuse one another's products.

The story started last month when American Express, famous for its charge cards, decided to launch an assault on the market with a new product called the Optima True Grace card.

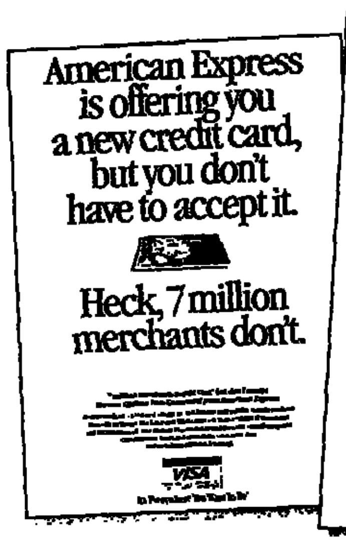
In advertisements, American Express said Optima True Grace offered an advantage unavailable to holders of other credit cards: an interest-free grace period on new purchases even if the monthly bill was not paid in full. Most cards, it said, charged interest from the moment of purchase if holders did not pay off the full balance.

At the end of September, Visa started hitting back. In newspaper advertisements across the US, it yelled: "American Express is offering you a new credit card, but you don't have to accept it. Heck, 7m merchants don't." In smaller type beneath the main message, it said 7m merchants accepted the Visa card that did not accept Optima True Grace.

After a couple of weeks, American Express's patience snapped. It started running full-page counterblasts to the Visa campaign, asking: "Why is Visa incorrectly claiming 7m more merchants than American Express? (We challenge Visa to name them.) Answer: So you won't notice the $1.5bn unnecessary interest they charge you."

Both sides vigorously defend their advertisements. Visa says it will be happy to name the 7m merchants which do not accept American Express if American Express will pay for the space. American Express says this is a red herring because most Visa agents are outside the US and have never seen, nor will ever see, an American. The real issue, it says, is the interest charges.

"We are firing a missile directly into Visa's home base. We are going right after its market. Visa's scared as hell about it. That's what these ads are about," says American Express's Thomas Ryder, president, establishment services worldwide.



One obvious drawback of responding to a rival's advertising claims in this way is that it can draw attention to a product that would otherwise have gone unnoticed. An increasingly popular alternative is to lob a lawsuit at the offending party.

Last week Hertz, the car rental company, employed the technique in an attempt to stop its rival Avis from running a television commercial promoting an airport valet service. The Avis advertisements offer a chauffeur-driven lift from car rental parking lots to airport terminals across the US, but Hertz's suit says many airports do not allow such a service because it adds to congestion. Avis has filed a counter-claim.

Even so, the public name-calling does seem to have become unusually loud of late. In another newspaper advertisement, AT&T, the US telecommunications company, has been contradicting the claims made by rival MCI Communications for a discount calling plan, saying: "You never save 40 per cent off your bill. (You actually save an average of only 13 per cent)."

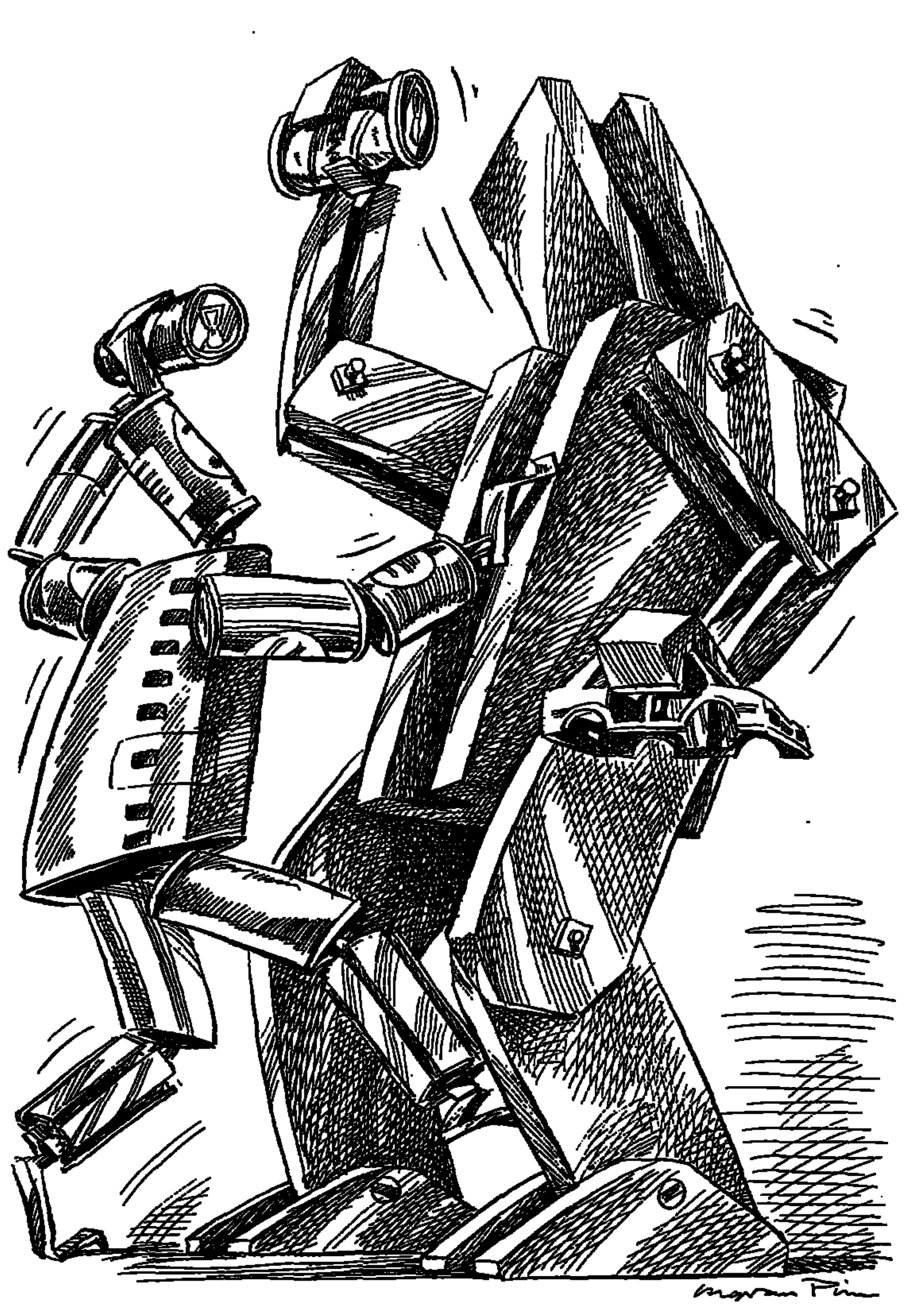
The National Advertising Division of the Council of Better Business Bureaus, the US industry's self-regulating body, says the outbreak is probably coincidental rather than indicative of a trend. Debra Goldstein, the division's acting director, says opinions remain divided about whether comparative advertising provides the consumer with additional valid information or whether it simply gives competitors free advertising time.

"There are pros and cons on both sides," Goldstein says. "But many advertisers may feel it just turns the consumer off, publicly airing a feud. No one wants to listen to that."

TECHNOLOGY: STEEL TAKES ON ALUMINIUM

Clash of two metals

Andrew Baxter on how the world's steel industry is fighting back against aluminium and other rivals



Tucked away in a luxury Colorado Springs hotel in October, some 350 executives from the world's big steelmakers had the chance to view some interesting slides brought along by colleague Jeff Edington.

These were no holiday snaps. Edington, British Steel's executive director for technology, was showing delegates at the annual International Iron and Steel Institute conference the wings from a Hawker Harrier jumpjet fighter and the tailfin of an Airbus 330.

In both cases, carbon fibre (a composite material challenging both steel and aluminium) had replaced aluminium as the material used. Edington's point was that steel, the world's most versatile structural material, has no automatic right to its position in the market place.

"Our product is a low cost, highly sophisticated material with a lot of development potential left in it. The market is ours to lose. If we lose it, we can only blame ourselves for lack of technical and business creativity and innovation," he says.

The upbeat outlook of Edington and other steel industry executives about the future of their product might seem to be misplaced. The public perception of steel is of an industry in decline, twisted by subsidies, wracked by controversy over job cuts, and tarnished with an old-fashioned image.

Some in the industry admit they have let producers of rival materials, notably aluminium, gain too much ground in recent years, and may have been distracted by their own industrial problems from promoting their products more effectively, and developing new markets.

Now, with steel demand rising, they have a chance to prove the public perception of the industry wrong. Lenhard Holschuh, the institute's secretary general, predicts world consumption of steel will rise by 2.3 per cent and 3.4 per cent this year and next, and by an average 2.8 per cent a year to reach an unprecedented 750m tonnes in 2000.

Some observers believe this may be too optimistic, although there is general agreement that much of the increased demand will come from developing countries. Nearly half of the steel consumed in 2000 will be used in Asia, says Holschuh.

Apart from the geographical factors, achieving these growth predictions will depend critically on the success of some of the product development and marketing initiatives, involving both steelmakers and users, currently under way.

The initiatives highlighted at Colorado Springs show how steelmakers are working to defend their patch in the three key industrial battlegrounds:

- In the automotive sector, an international industry consortium of about 30 steel producers is designing an ultra-lightweight steel car body.
- In packaging, European steelmakers are co-operating to develop an all-steel beverage can made from a special, lightweight high-strength steel (see accompanying article).
- In construction, some steelmakers are trying with considerable success to convince architects to use steel frames rather than concrete in office and industrial buildings. Others are battling with steel-producing rivals to supply the reinforcing bar or welded mesh on which the concrete depends.

In the US, one of the biggest recent success stories for steelmakers has come in the residential housing market, says John Ewing, US Steel's managing director for business development.

In 1991 just a few hundred steel-framed homes were built in North America. But a task force formed by the American Iron and Steel Institute identified an opportunity because of problems with materials, such as the rising cost and falling quality of lumber, and environmental issues raised by forestry and scrap. Steel, in contrast, can boast that it is fully recyclable.

Last year, about 13,000 new homes in North America used all-steel frames, and another 80,000 used steel in interior walls, so steel's penetration is still tiny compared with the 1.3m housing starts in the US alone last year. Ewing's target is for 25 per cent of all new homes to use steel framing in 1997 and 6 per cent to use steel roofing.

The lesson is that to achieve business success the steel industry does not always have to develop new grades of steel – such as the modern types of steel wire that allow suspension bridge spans now to be increased to nearly 2km, or the many new grades of coated steels used in car bodies.

Edington believes a "system solution" will become increasingly important. Steelmakers must think of their products as part of an engineered system consisting of various materials that together give customers value, he says. The system would have to cope with recycling.

Two other important driving forces for the steel industry, he says, are environmental pollution arising from using the end-product, most notably in the car industry, and process automation aimed at reducing costs and improving the quality of the final product.

In can-making, for example, production rates are increasing and decoration in up to six colours is added at 1,800 cans a minute, so dimensional accuracy and surface finish are paramount. In many markets, says Edington, accuracy and surface quality will have to continue to be improved.

Outside the big three industrial markets, steel has recently had mixed fortunes. In white goods, the development of pre-painted and laminated steels, and repeated quality improvements are hailed by steelmakers as factors enabling them to win the battle with materials such as plastics.

The challenge for the steel industry will be to cope with customers' demands for increasingly diversified and functionally sophisticated steel, but still generate a profit, says Minoru Tanaka, executive vice-president at Nippon Steel. This has led the Japanese steel industry to reassess its approach to quality and performance standards, producing reasonably-priced products that perform adequately rather than exceed the minimum required quality.

In railway rolling stock, aluminium has become the standard material for mainline carriages such as Germany's ICE high-speed trains. "It's lighter, and the image of the material seems to be more modern," says Rolf Schraut, head of research and development at Duewag, the Siemens rolling-stock subsidiary.

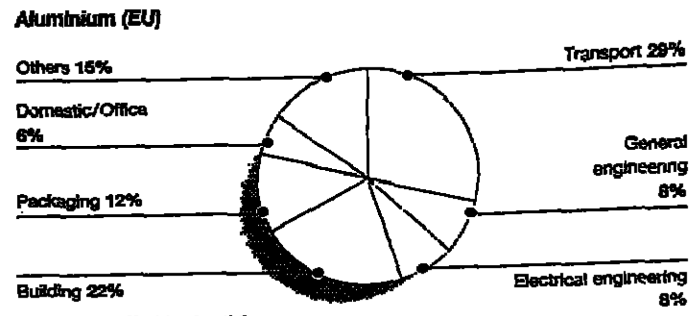
However, stainless steel producers are fighting back. One, Germany's Krupp Nirosta, has developed a stainless steel for the side wall of a high-speed train, working in co-operation with Duewag and Deutsche Bahn. It says it has the same rigidity and weight as a wall made of aluminium.

The industries' main buyers

Steel	JAPAN	UK	US
Automotive & transport	26%	15%	24%
Cans & containers	3%	7%	6%
Building & construction	47%	21%	34%
Engineering	14%	22%	21%
Other	10%	35%	15%

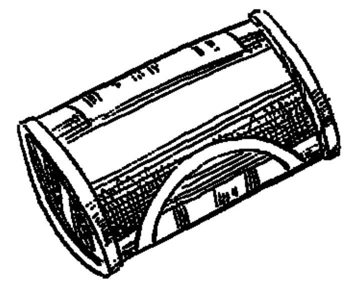
Source: International Iron and Steel Institute

Aluminium (EU)



Source: European Aluminium Association

BEVERAGE CANS



Promoting a can-do approach

Aluminium is a relatively young metal that has established itself by taking over from traditional materials. It has replaced wood and steel in windows and cladding, copper in electrical cable and, above all, substitutes for steel in beverage cans.

In the US, 95bn cans of beer or soft drinks are consumed every year, a can a day for every man, woman and child. And 99 per cent of the cans are made of aluminium where once they were made of steel.This has left the aluminium industry with a problem: about 10 per cent of global demand for its metal comes from one product in one country. So it is spending heavily to spread the gospel of the aluminium beverage can around the world.

To promote the use of aluminium cans outside the US, the industry leans heavily on its green credentials, claiming that the cans may be recycled on a closed loop system (from cans to scrap and back to cans again). The relatively high value of aluminium as scrap – the cans are worth six to 20 times more than any other used packaging material and are the most valuable used package found in household waste – enables the industry to spread the word that can-recycling gives collectors a decent income.

Last year, for example, the US aluminium industry is estimated to have paid $900m for used cans, money that benefited individuals, schools, church scout troops and so on. This is not simply altruism – the industry needs this recycled metal because it is a cheap raw material for new cans. As much as 95 per cent of the energy needed to produce new aluminium is saved by recycling old metal because aluminium "stores" energy. The average smelter uses as much power as a town of 500,000 people to produce new aluminium. On top of that, there are capital savings because a re-melting plant costs only one-tenth as much as a smelter.

Steel producers argue that the high cost of new aluminium means it makes economic sense to use aluminium cans only if more than 60 per cent of them are recycled. Few markets achieve this level.

In the US the recycling rate is about 66 per cent which means that last year roughly 600,000 tonnes of aluminium worth about $900m escaped, possibly to be thrown away. In Europe the estimated minimum recycling rate last year was about 30 per cent.

In Europe aluminium has won only half the available beverage can market and it is there that the steel industry, perhaps a little late, is fighting back hardest.

Steel beverage cans are as green as aluminium, the industry's message goes, mainly because they can be attracted by magnets and are therefore easily rescued from waste. Cans are selling at roughly the same price – about $58 (£37) per 1,000 – although steel prices could come down more quickly as it has greater potential for light weighting.

Innovative packages such as British Steel Tinplate's recently-launched Ecotop can, with a push-button, all-steel, easy-open end could give steel beverage cans more appeal in consumers' eyes.

John May, marketing manager at British Steel Tinplate, points out that the US steel industry, when it gave way to aluminium, did not have available the continuous casting technology the European industry is using to produce high-quality tinplate today. Recent technological developments in steel-can making have led to significant energy and materials savings.

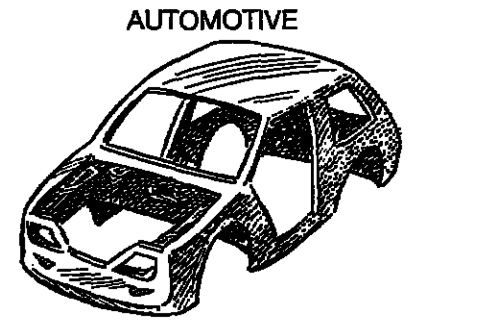
Steel beverage cans now have wall thicknesses of less than 0.1mm and are 30 per cent thinner than those made of aluminium. Steel soft drinks cans are 25 per cent lighter than four years ago, yet the industry is developing a steel can 30 per cent lighter than now , and lighter than aluminium cans on the market.

Steel suffered a setback recently when Coca-Cola Schweppes, the UK's biggest soft drinks group, switched its canning lines to aluminium, because of the metal's lighter weight. Nick Mason at the CRU International consultancy group says that, as steel is much denser and heavier than aluminium it is possible to use longer or wider aluminium coils. A typical aluminium coil will yield 12 cans per width compared with seven from a steel coil. So nearly twice as many tin plate coils are needed to make the same number of cans. That means more storage space and more handling, if steel is used.

Nevertheless, May insists his industry does not suffer from a "siege mentality" about the beverage can battle which is only one part of the packaging sector. Steel has about 15 per cent of the UK packaging market and aluminium 5 per cent. In beverage cans, in the Netherlands 100 per cent are steel, in France it is 95 per cent and in Belgium 90 per cent. Germany's market is 85 per cent steel.

Kenneth Gooding

AUTOMOTIVE



On course for a head-on collision

The motor industry urgently needs lighter, stronger materials to meet demands for more economical and environmentally-cleaner vehicles. The lighter the car, the less fuel it consumes and the smaller the amount of pollutants it emits.

But manufacturers are also being pulled in another direction. Legislators want more safety features, such as airbags and side-impact anti-intrusion bars. Consumers increasingly want air-conditioning, compact disc systems and other comfort features. These add weight – and lots of it.

The first Volkswagen Golf of the early 1970s weighed on average 750 kg. Thanks to all its extra systems, today's Golf weighs around 1,000 kg.

If VW could pare the car's weight back to 1974 levels while retaining modern convenience and safety features, the 1994 Golf would travel about 17 per cent further on each gallon.

Volkswagen's executive cars division, Audi, jolted the world steel industry with its launch earlier this year of the A8, a luxury car with an all-aluminium bodyshell comprising a skeleton-like frame made of extrusions and castings, clad in pressed aluminium panels. The body structure is said to be nearly 40 per cent lighter than the steel equivalent.

Audi and its partner Aluminium Company of America (Alcoa) have installed specialised production facilities allowing output of up to 30,000 cars a year.

More disconcerting yet for steel makers is that VW/Audi says it sees no reason why even high-volume cars such as the Golf should not have aluminium bodies early next century, while Alcoa says it is prepared to spend $1bn (£600m) or more on a partnership with any car maker seeking to produce aluminium-bodied cars in annual volumes of 100,000 units or more.

In North America major car makers such as Ford are also pressing ahead with development programmes for aluminium-bodied cars. In addition, a consortium of more than 20 steel-makers from around the world has embarked on a collaborative project aimed at designing the lightest possible steel bodyshell for cars. It has engaged Porsche Engineering Services, the US consultancy engineering arm of the German sports car maker, to lead the project, which is setting out to show that a 20 per cent weight saving in a steel bodyshell can be achieved by optimising design using current pressing and body-welding systems, and 35 per cent by designing from scratch and utilising advanced technology.

Even though VW/Audi has such a big commitment to aluminium body structures, it is keeping its options open. It is collaborating with Mercedes-Benz, BMW and the German and French steel industries in their own parallel programme to see whether thin, high-strength steels can achieve the same weight saving as aluminium, but at lower cost and using conventional pressing and welding equipment. If it can be demonstrated clearly that this is so, steel makers say they believe other steel-favouring factors should prove decisive: easy repairability within an established repair infrastructure; easier paintability; and easier and cheaper recycling.

A recent report by the Iron and Steel Institute maintains that whereas automotive steels are routinely shredded, melted and reformed into new products, aluminium body parts comprise different alloys with low tolerance both towards each other and outside contaminants, and so have to be recycled separately or downgraded into lower value products.

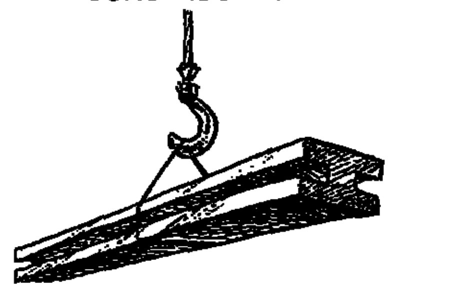
In terms of energy conservation alone, the implications of even a 20 per cent cut in body weight are enormous. Applied across the world car population, according to Ludwig Hamm, Porsche's head of body engineering, fuel savings would equal the annual consumption of more than 6m cars.

It is not only in the area of weight saving that steel makers are seeking to preserve their automotive markets. Steel makers have been investing heavily in mills to produce a variety of coated steels. A major part of this investment, around $25bn worldwide, has gone into zinc coating lines. What began, in the 1960s, as a limited supply to the automotive industry of hot-dipped galvanised sheet for use in exposed underbody parts has grown into the wholesale supply of steels with deep two-sided coatings.

The approach has helped to roll back part of the challenge to steel from the plastic composites sector, much of whose appeal has rested on its non-corroding qualities but which continues to suffer considerable problems of recyclability.

John Griffiths

CONSTRUCTION



Back in the frame for building

The great steel skeletons that thrust towards the New York sky epitomise the North American building site. Steel frames are a must for constructing office blocks, industrial units and residential flats in the US. But this is not so for much of western Europe where reinforced concrete is preferred for multi-storey buildings in many countries

The exceptions are in the UK and Sweden where use of constructional steel has risen sharply over the past decade, supported by new building design techniques and developments in fire resistant paints and sprays for steel products.

Now European steel producers are working hard to increase market share in countries such as France, Spain, Belgium, the Netherlands, Germany and Italy. They estimate that if steel frames were used as widely in other European countries as in Sweden and Britain, constructional steel demand would increase by 2.8m tonnes a year, a rise of 45 per cent.

Some 57 per cent of multi-storey buildings in the UK and 90 per cent of single-storey factories and warehouses were estimated by British Steel in 1991-92 to have been constructed with steel frames. In Sweden the corresponding proportions were 50 per cent and 80 per cent. In Germany they were 11 per cent and 20-25 per cent and in Italy 11 per cent and 20 per cent.

Marketing campaigns have been launched in these countries by the large European steel producers and fabricators. These emphasise the speed and simplicity of using steel as a building material, the relative fall in the price of the metal and the introduction of new European building codes on fire protection that they hope will overcome some of the prejudices of developers against steel frames.

Concern that steel loses strength when heated and therefore responds less well in big fires than reinforced concrete has held back development of steel in Europe.

EU building codes developed by CEN, the European standards institute, will provide developers with guidance on the most efficient and economic fire prevention regimes for steel-framed buildings. Also, much work has gone into developing fire-resistant paints and sprays that can be applied to steel beams.

Derek Tordoff, director of the British Constructional Steelwork Association, says: "European developers traditionally have thought that steel needed to be covered by concrete to be protected properly."

Retardants now include intumescent paints that expand when heated into a thick coating that insulates the steel from heat and flames. Beams and pillars can also be covered by a mineral-based vermiculite spray that expands when heated and is widely used for insulation.

Improvements in construction design aided by computers have made it much easier for architects to solve problems by design rather than by changing one material for another.

At its best steel construction should be as simple as building in Lego. Ready to assemble prefabricated parts, cut perfectly to fit, need to arrive on site in the right order and with the appropriate fastenings.

Builders in North America have become accustomed to constructing with a standard range of components, which can be assembled in various imaginative designs, but can be supplied by any one of a large number of manufacturers. Delivery problems are overcome quickly by switching suppliers while sub-contractors are content to handle products they are accustomed to without having to develop special techniques and procedures.

However, concrete has supporters too, and has also benefited from increasingly sophisticated design and prefabrication techniques.

Steel is used alongside concrete for floors and cladding, and new design techniques have enabled developers to reduce the thickness, and therefore the cost, of the concrete flooring that sits on steel beams.

Europe is a big prize. British Steel and the British Constructional Steelwork Association have combined with other large European steel producers and fabricators to develop common solutions and data on technical issues.

Advisory teams of structural engineers have been established in countries such as France and Germany, with financial support from the Eurofer Steel Producers, to make design and technical support available to smaller countries.

Production of constructional steelwork in western Europe is expected to be about 5.7m tonnes this year – about the same level as last year but 8 per cent below 1992 levels and 19 per cent lower than during 1990.

Andrew Taylor

ARTS

Cinema/Nigel Andrews

Talent in search of a signpost

On some days a critic wonders if his head is wound on the right way. The consensus among reviewers of Quentin Tarantino's *Pulp Fiction* seems to be that the new film is even more violent than his *Reservoir Dogs*, "but at least it is funny."

Pardon me while I clutch at comprehension. You mean: it is all right to watch people being shot, stabbed, tortured, sodomised or drug-injected if we laugh at it, but not if we take it seriously?

When *Pulp Fiction* won the Palme d'Or at Cannes this year, my shaking pen recorded the view that this was "another shameful crawl to

PULP FICTION (18)
Quentin Tarantino

THE CLIENT (15)
Joel Schumacher

L'ENFER (15)
Claude Chabrol

THREESOME (18)
Andrew Fleming

Hollywood" from a festival not for the first time thus grovelling. But the jury decision also reflected popular response. The Palais audience roared happily – frighteningly happily – as *Pulp Fiction* screeched and gear-shifted through its 2½-hour, three-stories-in-one traffic of underworld hit men and hoodlums.

It roared when gangster's moll Uma Thurman, having OD'd on heroin, has a needleful of adrenalin stabbed into her chest by desperate escort-bodyguard John Travolta, anxious that she should not die while he is on the job. It roared when a kidnapped young black has his brains scattered over a car thanks to Travolta's slippery trigger finger. And it giggled when boxer Bruce Willis, running from his boss after refusing to throw an important fight, is captured by a sodomitic, weapon-wielding pawnshop owner and friend.

Let us be clear. Tarantino is a brilliant talent. *Reservoir Dogs* was scary perfection as a thriller: disturbing in the right way, morally neutral in the right way. (Film-makers should play artist and storyteller not judge or jury). And his screenplays for other directors – *True Romance*, *Natural Born Killers* – are piecing together an epic psychopathology of violence for America, a country asking for one.

Pulp Fiction is brilliant too. But it is a different brilliance: a dribbling, prolix, self-gratifying, one-handed brilliance. Tarantino's dialogue is still the best in American cinema, wild with colloquialism, non-sequitur and the shared references of a pop-culture generation. But in earlier films this dialogue served a pressure-chamber exploration of character as well as the mad lore and logic of the criminal mind.

In *Pulp Fiction* the verbal riffs – on everything from French names for hamburgers to the sexual implications of a foot massage – are just that. Swirls of pretty inanity: as disembodied from each other as are the film's own sundered story-sections. It is daring to show one leading character's death and then to jump to another tale in which the same character is alive. It says "Up yours" to the Aristotelian unities. But it also says "up yours" to an audience now so jaded that it is prostrate and giggling in the film's back seat. It no longer cares where the vehicle is going so long as the shootings and expletives keep happening.

The film opens and closes with a sequence in a diner in which Tim Roth and Amanda Plummer play two debut crooks planning a hold-up. The diner setting is a misfortune. It recalls another movie: it reminds us that Barry Levinson in *Diner* pioneered this Daft Language Of The Young syndrome years ago and also gave us characters who had minds, lives and feelings. *Pulp Fiction* is a joyride from nowhere to nowhere, with a man at the wheel who *could* be the director with the best sense of direction in America.

Should you see *Pulp Fiction*? Yes, you still should. It is 150 minutes of talent in search of a signpost.

★

The Client, by contrast, is all signposts and no talent. Taking a John Grisham bestseller about a frightened boy witness in a murder trial, who tries to stay mum while being cajoled by the FBI and menaced by the Mafia, director Joel Schumacher (*Cousins*, *Flatliners*) approaches the plot's twists and turns like a first-time cab driver struggling with his A-to-Z.

This way for the boy's meeting with caring, motherly lawyer Susan Sarandon, who agrees to take his case for the *one* crumpled dollar in his pocket. (Can I have her business address?) This way for the first glimpse of the barking, self-righteous FBI man played by Tommy Lee Jones: an actor who seems to be spending his entire career (see *The Fugitive*, *Natural Born Killers*) stomping down corridors spraying orders at people. And this way – into the lawyer's car and off into the night – for the climax in a boatshed where most of the main cast meet over the dead body under the concrete.

Dr Johnson once said that if a play is a set in the king's bedroom, then everyone must have his business in the king's bedroom. I felt much the same about this boatshed. But by this point in a sluggish, pedestrian thriller I was glad for the company and the sense that everything was about to be over.

★

Claude Chabrol's *L'Enfer*, based on an uncompleted movie project by Henri-Georges Clouzot of *The Wages Of Fear* (he died six days into shooting in 1964), is brilliantly acted by Francois Cluzet. He plays a young husband eaten up – almost literally to judge by the pale, thinning skin and deepening facial faultlines – by irrational jealousy of his beautiful wife (Emmanuelle Béart).

Cluzet, who was the young musician in *Round Midnight*, makes the near-impossible role irresistible. He is required to hear voices, talk into mirrors, throw tantrums at his guests (he runs a small country hotel) and do physical damage to himself and his wife. Looking at my notes later, I saw the comment: "Clearly needs professional help." But this refers to the character, not Cluzet's performance. *L'Enfer*, 30 years after it was penned, has fallen foul of an age when psychiatry would seem the answer to a clear case of clinical disturbance.

Chabrol's direction does not help disbelief-suspension. It is nervously poised between sly naturalism – his favoured mode in masterworks like *Le Boucher* and *La Femme Infidele* – and the halfhearted expressionism that the material seems to solicit. A surreally stark hotel corridor (out of Fifties film noir); sudden blackouts between scenes; or the shot of a chair-slumped Cluzet reflected in the rectangular mirror over a mantelpiece, looking for all the world like a parody portrait-painting: "Whistler's Mad Uncle," perhaps.

What the film needed was a *coherent* visual strategy. Or even – given the grim relentlessness of the subject – a telling subplot that could provide variety as well an oblique second perspective on the theme.

But better Chabrol's Hell than the Hollywood Heaven of Andrew Fleming's *Threesome*. This story's triangular complications – two college boys and the girl accidentally assigned the second bedroom in their campus duplex – are solved by some pathetic, sanitised stabs at bisexuality. Boy one (Stephen Baldwin) fancies girl (Lara Flynn Boyle); girl fancies boy two (Josh Charles); boy two fancies boy one.

Audience fancies exit door. While the gay boy gets the amatory short straw – basically, of course, he is a mixed-up heterosexual – the others climb into bed for much pawing, cooing and platitudinising, none of which would offend Aunt Edna.

French classics are an option when all else fails. Bresson's 1974 *Lancelot Du Lac* (PG, Everyman Hampstead) is an achingly beautiful film, despite some clunk-clank combat scenes that may summon irreverent thought of Monty Python. And Cocteau's 1950 *Orphée* (PG, National Film Theatre) is still the greatest of all films that explore and proudly exhibit that illusionist looking-glass we call cinema.

Lost sense of direction: Uma Thurman in Quentin Tarantino's 'Pulp Fiction'

Theatre/Alastair Macaulay

True West

Now the two brothers of Sam Shepard's tense and riveting play *True West* need one another; now they are split by mutual jealousy. At first, they seem as different as Apollo and Dionysus, or Jekyll and Hyde; more crucially, they resemble Tom Sawyer and Huckleberry Finn. Then, as the power struggle within their sibling rivalry develops, they start to swap characters. It appears – enthrallingly – that each brother is fatally incomplete without the other; and "fatal" becomes more or less the word. The play, which started virtually without plot, winds up in a crescendo of action.

Congratulations to Leeds' West Yorkshire Playhouse and to director Matthew Warchus for staging this play, and to casting two superlative actors. At the performance I saw, Mark Rylance was Austin (the younger, more educated, citified writer) and Michael Rudko was Lee (the older, wild, lone traveller from the desert). But they exchange roles at alternate performances, and I am impatient to see them in reverse. Soon, I will have the chance: *True West* comes to London's Donmar Warehouse in November. I look forward also to seeing again, in two small roles, the excellent Marcia Warren's economically eloquent account of their Mom, and David Henry as (ungrateful role) the film-producer Saul Kimmer.

No, *True West* is not a great play. It moves in terms of dichotomies and parabolas: too schematic. Only occasionally does it relax and add the kind of unnecessary detail that puts flesh on its lean bones. One such passage is Austin's hilarious slow narration of how their father lost his teeth. Two more such passages occur when their Mom talks of (a) Picasso, (b) Alaska. Later – of course! – we see that Picasso and Alaska are just another pair of Shepard's dichotomies (civilisation *versus* the wild, education *versus* nature.) For that matter, Mom and the unseen Dad are themselves also artificial polar opposites. All which is clever, interesting, but not always real.

Yet *True West*, as they say, brings up a whole lot of stuff. No-one can miss the point of the image early on when Austin mounts a stepladder to spray his mother's house plants, while Lee chucks the beer cans he has finished onto the floor. Or the chaos later on, when the brothers turn the room into an urban desert: Lee attacking a broken typewriter with a golf club, Austin making toast simultaneously in ten stolen toasters. Even at its most diagrammatic, the jealousies of brother and brother are shockingly potent.

Warchus' production highlights such moments, but allows the actors to give performances very close to sheerest transparent. Rudko is so much the dangerous, needy, plaintive, coyote-like hobo from the desert that I cannot imagine how he will bring off the opposite role. Rylance, despite one or two more calculated moments, nonetheless gives an astonishing performance. Just the way he breathes as, early on, he watches Lee, speak volumes: as does the way his soft, grainy voice suddenly finds a driving charge of passion, as he confronts his worst shock of defeat and injustice. I know no male actor today who can so catch my heart in my throat. This production clinches what I have felt for some time: that the West Yorkshire Playhouse is the most vital and refreshing English theatre outside London today.

Dance/Clement Crisp

Lucinda Childs

In New York in the early 1960s dance experiment was centred on Judson Church. There the earnest and the eager set about forging a new dance – post-modern, post-Cunningham – which sought a radical re-shaping of everything that "dance" had meant up to then.

It was, I suppose, symptomatic of its time, and marked by a Puritanism that accorded well with current theatrical and musical austerities. One of Judson's formative figures was Yvonne Rainer, who declared "No to spectacle; *No* to virtuosity; *No* to transformations and magic and make-believe…" (I saw a Rainer performance, which was crucifyingly boring, and offered no substitute for anything at all – least of all dance). An ideal had been stated for many who followed in her unlovely foot-steps.

This year Lucinda Childs, one of the most acclaimed Judson graduates, is making a first British visit with her company. Sophie Constanti reported here on her Edinburgh Festival debut; on Tuesday night, as the Dance Umbrella season got under way, Miss Childs and her troupe came to the South Bank – a glum and not inapt location. The Childs manner offers small cells of activity which repeat and repeat, re-align and slowly mutate – it is no accident that she uses minimalist scores as accompaniment – so that the viewer is made aware of a cumulative structure.

This building-blocks approach to dance would be more fascinating – as the Shades entry in *Bayadere* is fascinating in its repetitions and augmentation – were the blocks themselves of interest. But to pile up banalities, to shift their direction, to pass them among a cast like so many tiny austerities, is not so much architecture as parsimony.

The major piece in Tuesday's programme was *Available Light*, almost an hour of routines set below and on a bridge-structure. First made as a museum installation in Los Angeles a decade ago, it has a score by John Adams which is vastly more enterprising in the working out of its patterns than Childs's movement sequences. Ten dancers (looking like sci-fi laboratory assistants in overalls that reveal pallid inner legs and arms) tread and re-tread their well-worn paths. Virtuosity is Rainer-ishly denied – the cast look unstretched – and the development of these ideas is simple-minded. ("Those two have just turned and run. That means that the other two in black, and then the four in red, will do the same" – and they do). Miss Childs manifests herself twice, Cunningham-fashion, but even in these unambitious technical surroundings, her performance has a constrained air.

The second piece, *Concerto*, dates from last year and uses Gorecki's harpsichord concerto. It lasts nine minutes, and its dancers, in smart black shirts and trousers, nip along pre-destined tracks with something like vivacity. (The trams are moving faster). Here Childs' style matches the motor energy of the score in recurring patterns of action, if not in emotional density. The piece is short enough for the message to seem intriguing without turning into an acreage of tape-loop repeats. Brevity is not the soul of post-modernism – but it is a tremendous bonus here.

Lucinda Childs is at the Queen Elizabeth Hall until October 20.

Music in London

The Kocian Quartet and Welser-Möst

How much shall circumstances in which a work was created affect our response to it? Such was the question which might have arisen at the Kocian Quartet's rivetingly played recital (sponsored by the David Cohen Charitable Trust) at the Wigmore Hall on Monday, commemorating the 50th anniversary of the premature deaths of four of Czechoslovakia's most intriguing composers. In the event, the music was of such fascination that no special pleading was needed.

All of them were internees in the Nazi-commandeered ghetto of Terezin near Prague where, to convince outsiders that all was well in the Jewish community, the authorities promoted vigorous artistic activity. Ironically, this "liberal attitude" was the catalyst to music of a radicalism outlawed in Germany itself and of a quality comparable to that of their contemporaries Schoenberg, Bartók and Janáček.

Of the four the best known is probably the Polish-born Viktor Ullmann. His opera *The Emperor of Atlantis* was performed in London only a year or two back and his Third String Quartet fully confirmed the favourably impression made then. Like Pavel Haas's more expansive Third String Quartet with which it was paired in the concert's second half, Ullmann's quartet is pervaded by that wistful Viennese *weltschmerz* found in Mahler and early Schoenberg, yet in its quixotic reversals of mood and sardonic humour offers something distinctly personal and unnerving.

So too does the Trio of Gideon Klein, only 26 when he died, a concise, folk-inflected study *à la* Bartók. Its cool objectivity seems to belie the crisis situation of its origins, a characteristic of Hans Krása's sometimes quirky *Theme with Variations*. Strangely perhaps, the greatest emotional intensity was to be heard not from the Terezin period but in music composed over 20 years earlier, Krása's String Quartet of 1921, an ambitious summation of all the main compositional trends of its time. With its post-modernish references to the Brahms "Lullaby" and "Silent Night" it might have been written yesterday.

Antony Bye

Performances of Schumann's oratorio *Scenes from Goethe's Faust* are rare, so it was an excellent choice for the "Deutsche Romantik" series on the South Bank. So was the plan of having the American Thomas Hampson sing Faust; his big, resplendent voice should have dominated the first two parts of the work, the quasi-dramatic ones. It was bad luck that Hampson fell ill just days before the London Philharmonic concert on Monday.

In the event, listeners to the live broadcast on Radio 3 probably heard the piece to better advantage than those of us in the Festival Hall. Hampson's replacement was Simon Keenlyside, who – like Nicholas Folwell in Weber's *Euryanthe* on the previous evening – had bravely agreed to learn the part at short notice. It was understandable, but disappointing, that his attractive, intelligently used baritone lacked the authority to impose itself on the music.

The conductor Franz Welser-Möst did little to accommodate him, either by way of trimming back the orchestral sound or mitigating his tempi, which tended to be doggedly brisk. Margaret Price's Gretchen and Kurt Rydl's Mephistopheles were safe and strong, but Ian Bostridge was another *souffrant*, and after a plucky start his Ariel simply ran out of voice. The rest of the solo team were good, and the London Philharmonic Choir tolerably secure; the boys' chorus sounded frail.

For Part 3, the elevated "Chorus Mysticus" that Mahler was to set so much more dramatically in his Eighth Symphony, Welser-Möst at last relaxed a little. So did his singers: Keenlyside's Doctor Marianus was fine and fervent, and each of Goethe's other mystical figures was gracefully sung. We began to appreciate Schumann's curiously gentle lyricism better.

That was rather late, however. We had been taken at a jog-trot through much of the earlier music (composed later, in fact), with little chance to dwell upon its luminous moments. Yet hardly anything in the *Scenes* is "symphonic"; the various movements are more like expanded mood-pieces.

David Murray

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Sat: George Demertzis violin recital. Sun, Mon: Kurt Masur conducts Leipzig Gewandhaus Orchestra in two programmes, including works by Mahler, Prokofiev and Richard Strauss. Tues: McCoy Tyner Jazz Trio. Next Wed and Thurs: Wolfgang Gönnenwein conducts Mozart programme (01-728 2333/01-722 5511)

■ BOLOGNA

Teatro Communale Sat, Sun: Marek Janowski conducts Orchestra of the Teatro Communale in works by Webern, Hindemith and Brahms. Mon: Trio Wanderer plays piano trios by Beethoven and Chausson. Tues (Palazzo dei Congressi): Royal Flanders Ballet presents Giselle, staged by Robert Denvers and Menia Martinez. The opera season begins on Nov 26 (information: 051-529999)

■ GENOA

Teatro Carlo Felice Tomorrow evening, Sat afternoon: Alain Lombard conducts symphonies by Mozart and Brahms (No telephone bookings. Information: 010-589329/010-5381 225)

■ LONDON

THEATRE

● The Prime of Miss Jean Brodie: Patricia Hodge takes on the role of the formidable schoolteacher whose mix of romance and wilfulness inspires her pupils. Alan Strachan directs the first major London revival since the original 1968 production of Jay Presson Allen's stage version of Muriel Spark's novel. Now in previews, opens on Tues (Strand 071-930 8800)

● The Sisters Rosensweig: Michael Blakemore directs Maureen Lipman, Janet Suzman and Lynda Bellingham in Wendy Wasserstein's Broadway hit comedy about three American Jewish sisters who have a mid-life reunion in London (Old Vic 071-928 7616)

● The Winslow Boy: Peter Barkworth is ideally cast as the stiff upper-lipped father battling Whitehall to prove the innocence of his son, who has been expelled from naval college. A well-made production of Terence Rattigan's well-made 1946 play (Globe 071-494 5065)

● The Seagull: Judi Dench heads a splendid cast in Pam Gems' new version of the Chekhov play. In repertory with a new production of The Devil's Disciple, Shaw's 1897 satire on melodrama (National, Olivier 071-928 2252)

● The Children's Hour: Howard Davies directs the National Theatre's new production of Lillian Hellman's 1934 drama, about a vengeful schoolgirl who accuses her teachers of having a lesbian affair and sets in motion the collapse of their world. The cast is headed by Harriet Walter and Claire Higgins (National, Lyttelton 071-928 2252)

● The Queen and I: Sue Townsend's stage adaptation of her own best-selling novel in which the Royal Family are sent to live on a run-down housing estate. Max Stafford-Clark's Royal Court production has just transferred to the West End (Vaudeville 071-836 9987)

● Arcadia: Trevor Nunn directs Tom Stoppard's complex but often funny drama which won the 1994 Olivier Award for best play (Haymarket 071-930 8800)

● The Slab Boys Trilogy: the first London revival since 1982 of John Byrne's comic trilogy, which follows the lives of three Paisley boys from desperate youth to despairing middle-age. The three plays can be seen individually - the first is easily the best - or as a complete package on certain Saturdays (Young Vic 071-928 6363)

● What A Performance: the title recalls the catchphrase of Sid Field, the talented comedian who died in 1946 of a heart attack at the age of 45. David Suchet of Poirot fame dons a cheeky grin in William Humble's stage biography which relives the best sketches and backstage life of the star (Queens 071-494 5040)

● She Loves Me: the charming 1963 Masteroff, Bock and Harnick musical about two longtime pen pals who don't know they work in the same parfumerie. Ruthie Henshall and John Gordon Sinclair head the cast (Savoy 071-836 8888)

OPERA/DANCE

Covent Garden The Royal Opera has just unveiled the first two parts of its new Ring production, staged by Richard Jones and conducted by Bernard Haitink, with cast headed by John Tomlinson, Ekkehard Wlaschiha, Poul Elming, Robert tear, Deborah Polaski, Ulla Gustafson and Jane Henschel. Next performances of Das Rheingold are tonight and Tues, and of Die Walküre on Sat and Oct 29. Turandot is revived on Mon with Gwyneth Jones in the title role, and a new production of Gounod's Roméo et Juliette opens on Oct 28. The Royal Ballet presents Anthony Dowell's new production of Sleeping Beauty on Nov 3 (071-304 4000)

Coliseum Nicholas Hytner's English National Opera production of Die Zauberflöte is revived tonight with a cast headed by Neil Archer, Rebecca Caine, Quentin Hayes and John Connell. A new production of Massenet's Don Quichotte, staged by Ian Judge and conducted by Emmenuel Joel, can be seen tomorrow and next Fri (runs till Nov 9). Final performances of Tosca are Sat, next Tues and Thurs, with Rosalind Plowright in the title role (071-836 3161)

Sadler's Wells American performance group Momix is in residence till Oct 29 (071-278 8916)

Queen Elizabeth Hall Tonight: Lucinda Childs Dance Company. Sat, Sun: Stephen Petronio Company (071-928 3002)

CONCERTS

Barbican Tonight: Michael Tilson Thomas conducts London Symphony Orchestra in Mahler's Fifth Symphony. Sat, Mon and Wed: Andras Schiff and friends play chamber music by Schubert and Janacek. Tues: Georg Solti conducts LSO in a Brahms programme, with violin soloist Itzhak Perlman. Next Thurs: Perlman violin recital (071-638 8891)

South Bank Centre Tonight: Yehudi Menuhin conducts RPO in works by Britten, Elgar, Mendelssohn and Mozart, with cello soloist Lynn Harrell. Tomorrow: Owain Arwel Hughes conducts LPO in Dvorak, Bruch and Brahms, with violin soloist Joakim Svenheden. Sat: Andrew Davis conducts BBC Symphony Orchestra and Chorus in Schumann and Berlioz, with viola soloist Nobuko Imai. Sun: Tokyo Philharmonic Orchestra. Oct 27, Nov 1, 2, 6: Mariss Jansons conducts the LPO (071-928 8800)

■ MADRID

Teatro Lirico La Zarzuela Next Thurs: Victoria de los Angeles song recital (01-429 8225)

■ MILAN

Teatro alla Scala Tonight: final performance of Monteverdi's L'incoronazione di Poppea, conducted by Riccardo Muti and staged by Gilbert Deflo. Sun: Kronos Quartet. Oct 27: Georg Solti conducts London Symphony Orchestra (02-7200 3744)

PRAGUE

Rudolfinum Tonight, tomorrow: Vaclav Neumann conducts Czech Philharmonic Orchestra in works by Smetana, Jan Kubelik and Janacek, with violin soloist Miroslav Vilimec and bass-baritone Ivan Kusnjer. Sun: Leos Svarovsky conducts Brno State Philharmonic Orchestra in Smetana, Dvorak and Brahms. Next Wed and Thurs: Robert Stankovsky conducts Martinu, Hummel and Haydn, with trumpet soloist Hakan Hardenberger (02-2489 3352)

● A 10-day Dvorak Festival opens tomorrow with a performance of The Jacobin at the National Theatre, followed by recitals and choral and orchestral concerts at a variety of venues around the city. Tickets and information available from the Rudolfinum (02-2489 3352) or Bohemia Ticket International at Na Prikope 16 in the city centre (02-2421 5031)

■ ROME

Myung-Whun Chung conducts the Orchestra dell'Accademia Nazionale di Santa Cecilia on Sun, Mon and Tues in works by Haydn, Britten and Shostakovich, with soprano Barbara Hendricks. The orchestra's programme for the pre-Christmas period includes Krystian Zimerman, Vladimir Spivakov and Cecilia Gasdia as soloists, with the conductors Georges Prêtre, Christian Thielemann, Gennady Rozhdestvensky and Carlo Maria Giulini. All concerts take place at the Auditorio di Via della Conciliazione (06-6880 1044)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

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NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Let gnat-size robots do the dusting

BOOK REVIEW

Readers who are intrigued by the plethora of articles and programmes about 'information superhighways' and want to know more about what they really mean will find *Out of Control* an excellent introduction that captures the genuine spirit behind the publicity.

This book by Kevin Kelly, California's leading new wave techno-journalist, lives up to its title as it weaves wildly between 1,001 subjects: from electronic banking to the art of beekeeping, from the Gulf war to post-Darwinian evolution. But in the process it conveys brilliantly the end-of-millennium excitement felt by many techies about the coming convergence of computing, communications and biology.

The first primitive manifestation of this convergence is the information superhighway or I-way. It may lead to the creation of artificial life some time in the next century, Kelly argues.

In Kellyspeak, out-of-control is the ultimate accolade for a complex system, whether it is a communications network, a robot or an artificial organism. It means that the system is evolving beyond the original specifications of its (human) designers, developing of its own accord into something more capable and powerful than they could have devised by themselves.

Kelly concludes the book with "Nine Laws of God" which should be followed by anyone aiming to create an out-of-control system. The first two laws give the essence of his message:

1. "Distribute being". The spirit of a beehive, the behaviour of an economy and the thinking of a supercomputer are distributed over a multitude of smaller units, whose interactions give the whole system a life that is far more than the sum of its parts.

2. "Control from the bottom up". The collapse of centrally planned, Soviet-style economies shows that no system can run for long on commands passed down from the top, Kelly says. "A mob can steer itself, and in the territory of rapid, massive and heterogeneous change, only a mob can steer."

OUT OF CONTROL – The New Biology of Machines
By Kevin Kelly
Fourth Estate. £16.99, 520 pages

Imagine that you are given a million units of intelligence – call them neurones – to start a system of artificial life. You will achieve more in the long run if you distribute the intelligence equally among 10,000 creatures, giving 100 neurones to each, than if you create 100 super-beings with 10,000 neurones each. The reason is that a myriad of different creatures can work together and evolve in a way that is impossible for a small number of beings, however intelligent each may be.

Robots to help around the house are a good illustration of Kelly's many-is-beautiful philosophy. He is not keen on the idea of a few humanoid robots trundling around like R2D2 in *Star Wars*, serving us beers or vacuuming our carpets.

Instead, Kelly enthuses about the prospect of filling our homes with vast numbers of unobtrusive insect-like "microbots" – an idea pioneered by Professor Rodney Brookes at the Massachusetts Institute of Technology. For example a tiny "gnatbot" (Kelly loves coining words) will live in the corner of the television screen and come out to eat the dust off the glass when the TV is switched off. Slightly larger cleaning robots will hide under every piece of furniture, programmed to emerge when they detect that the humans are away.

Out of Control is far from perfect. It contains inaccuracies, unsupported generalisations and non-sequiturs galore. Some passages are maddeningly short; others (such as the chapter on "Post-Darwinism") ramble on far too long. And Kelly, who is executive editor of *Wired*, the Californian magazine for network surfers, is not critical enough about the futuristic speculations of his friends and contacts.

Indeed the harshest criticism in the book is aimed at the late George Orwell. "No one has been more wrong about computerisation than Orwell in *1984*," Kelly writes. "So far nearly everything about [computers] indicates that they are the end of authority and not its beginning."

Yet, for all its faults, *Out of Control* is a joy to read, both for its detail and for the enlivening impression it provides. One reason the book works so well is that Kelly obviously had fun writing it. His *joie d'écrire* carries the reader happily through all 520 pages.

There is a striking contrast between *Out of Control* and *The Quark and the Jaguar*, another important science book published this summer. Both are wide-ranging books with complexity theory and the emergence of order from chaos as central themes.

But Murray Gell-Mann, the Nobel prize-winning author of *The Quark and the Jaguar* (Little, Brown, £18.99), laboured long and hard on his book, repeatedly rewriting passages to make them as clear as possible. After all the effort, much of Gell-Mann's prose is indeed reasonably readable but it does not bubble like Kelly's. As a famous physicist, Gell-Mann is concerned to maintain his scientific reputation, and so resists the kind of bold but plausible speculation that makes *Out of Control* so fascinating.

In terms of content rather than style, however, Kelly could have borrowed a few thoughts from Gell-Mann, particularly the latter's emphasis on the all-important role of chance in the evolution of every system in the universe.

Kelly is too optimistic to consider the risk that sheer bad luck could wreck his rosy scenarios. If the out-of-control biocomputer systems of the future do take on a life of their own, will they necessarily develop in the benign human-friendly way that he predicts?

In the end, Kelly's infectious optimism suppresses such doubts. *Out of Control* leaves the reader with a sense of heightened anticipation, looking forward to riding on the information superhighway to a symbiosis of people and machines some time in the next century.

Clive Cookson

ECONOMIC VIEWPOINT

Taxes, benefits and jobs

By Samuel Brittan

High pay is better than low pay; but low pay is better than no pay.

Obviously we would all like good, well-paid jobs. But for many people these are not available, partly because the labour market has shifted to the disadvantage of workers with low marketable skills. Meanwhile, low-paid jobs bring some benefit to the national economy, and some gain in self-respect and morale to those who have them, in the way that dole payments do not. Every economic gathering proclaims that it should be made worthwhile for people to work rather than live on social security, but few explain how.

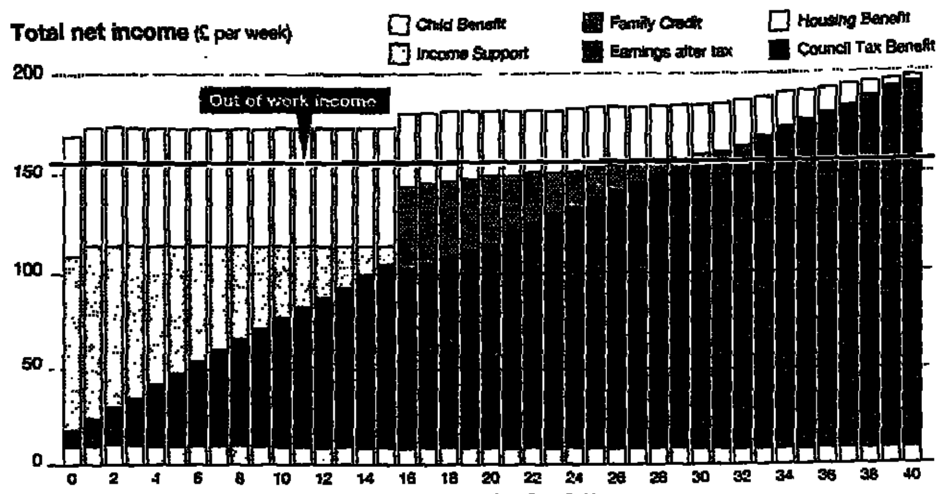
The deterrents are sometimes summarised in terms of a "tax wedge" between the gross wage and net payments after tax and social security contributions. In the UK, the wedge for low-paid workers has been much mitigated as a result of several past Budgets. But it does amount to nearly 30 per cent on to the cost of employing workers at about £200 a week – the lower end of the middle income distribution range, which is where many of the problems lie.

Social security contributions are a tax on labour incomes. Indirect taxes such as value-added tax can be regarded as levied on wages plus profits. So there might be a modest effect on labour demand by switching from social security to VAT, but nothing like one-for-one. It is doubtful if a shift to income tax, which is another tax on labour, would have any notable effect at all.

As far as employee disincentives are concerned, the Institute for Fiscal Studies is right to say in its Green Budget that the main deterrent to accepting a low-paid or part-time job is not so much anything in the tax system, but the withdrawal of benefits once earnings start. In Britain the Thatcher and Major governments have put a lot of emphasis on making it more worthwhile to work and more difficult to live on benefit. Yet the proportion of the non-employed (unemployed plus working-age people outside the labour force) has increased from one cycle to another. Labour's Commission on Social Justice, chaired by Sir Gordon Borrie, is bound to say something on these matters in its report due to be published on Monday.

The worst disincentives are shown in the chart. A man with one child earning £6 an hour is no better off on a part-time job because of the withdrawal of Income Support, pound for pound, until he reaches a threshold of 16 hours worked. At this point Family Credit, specifically designed to make it worthwhile to take low-paid jobs, comes into effect. But much of the intended gain is negated because the withdrawal rate of Housing and Council Tax Benefit is added to the withdrawal rate of Family Credit.

Net income of couple on Family Credit and Housing Benefit



The table shows that the combined effect of withdrawing Housing and Council Tax Benefit amounts to an implicit marginal tax rate of 89½ per cent for every extra pound earned. If Family Credit is also received, the implicit marginal tax rate also rises to more than 97 per cent. The worst affected are spouses of unemployed people who stand to lose Income Support pound-for-pound if they go to work.

These interactions are made unnecessarily complicated because Housing Benefit is administered by local authorities for the Department of the Environment, while Family Credit is administered by the *Department of Social Security*; a fusion of the two benefits – which now serve a similar purpose – is surely overdue.

The IFS also suggests a rent credit in place of Housing Benefit, which would pay the rent for a family working less than 16 hours a week. Above that a boosted Family Credit should take over the job. An additional advantage – which may be psychological – is that there would no longer be an obvious sum which offset rent for households with even a modest income from work. Thus people would be more inclined to bargain seriously over rents and to move out of over-extended accommodation. As for Council Tax Benefit, this is simply a bribe to local government voters alienated by the poll tax saga; and the sooner it is phased out and fed back into the general social security budget, the better.

THE EARNINGS TRAP

Gross earnings increase by	£1.00
Income tax rises by	-0.20p
National Insurance rises by	-0.10p
Net income	0.70p
Housing Benefit withdrawal (at 65%)	-0.45½p
Council Tax Benefit falls by 20% of 70p	-0.14p
Leaving	0.10½p

NB: If Family Credit is also being received, marginal tax rates increase to more than 97%

Source: IFS Green Budget

Even apart from the Housing Benefit complication, Family Credit has the defect of not being paid to single people or families without children. The least the Borrie Commission could suggest would be to amalgamate Family Credit and Income Support, thus bringing together benefits for those in and out of work. Once it occurs the absurdity of both the 100 per cent cut-off for the unemployed person taking work and the exclusion of childless families would become apparent.

Borrie is almost certain to advocate the integration of benefits and taxes for pensioners. This should be a trial run for a wider amalgamation. But the acid test will be whether he advocates the amalgamation of working-age benefits.

The Conservative government will shy away from this minimum reform because of its preoccupation with the so-called Job Seeker's allowance, which will amalgamate the contribution-related Unemployment Benefit with the means-tested Income Support on which most unemployed people in practice rely.

Ministers did, however, come out at last week's party conference with a scheme meant to increase the incentives for the long-term unemployed to take a job in the non-black economy. Although they largely buried their initiative in a tide of anti-European rhetoric, they did envisage a 'claim-and-save' scheme under which somebody returning to full-time work would gain a bonus of up to £1,000.

This will be the light at the end of a long tunnel. Part-timers will still have every pound they earn clawed back from benefit above the normal £5 a week minimum. The difference is that half the benefit initially lost will be put into a fund reclaimable when the person returns to *full-time* work.

The scheme is typical of the minimalist reform that civil servants, with the Treasury breathing down their necks, produce for Conservative ministers. Apart from the obvious drawback of being long deferred for someone now in part-time work, the scheme has the further disadvantage of being once-for-all. In other words, those workers remaining at the lower end of the income distribution range will soon exhaust their gain.

What conclusions emerge if one draws back from the mass of confusing detail? As the Green Budget points out, there is a choice. For any given level of basic benefits there can, at one extreme, be a cut-off rate of 100 per cent for every extra pound earned. The result would be an extreme work disincentive for a limited number of people. The other extreme would be a Basic Income for all, which would be withdrawn only at the income tax rate. The latter however would have to be much higher than it is now (or some other tax such as VAT would have to be very high in its place). The result would be a less prohibitive, but still very heavy, disincentive spread over far more people.

The present system for income-related benefits is more like the 100 per cent cut-off rate than the Basic Income. Most reforms amount to moving slightly towards the latter, but still with high cut-off rates. There could also be a less inquisitorial administration.

There is in any case no cost-free option. The art is to do the most good for any given transfer from the main body of taxpayers. Unfortunately the Tories have too many moralistic hang-ups about reform and Labour too many inhibitions about "selectivity" to do this as well as they might.

LETTERS TO THE EDITOR

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Asylum seekers are dealt with fairly in UK

From Mr Nicholas Baker MP.

Sir, Your editorial, "Without charge" (October 19) about detention of asylum seekers contained a number of inaccuracies. May I set out the relevant figures in their context: 22,370 applications for asylum were made last year which is below the 1991 peak of 44,000 but well above the 1988 figure of 4,000. More than 90 per cent of asylum seekers are not genuine refugees under the 1951 UN Convention to which Britain adheres. Each application is considered carefully on its merits in accordance with that convention.

Powers of detention under the Immigration Act 1971 are exercised only where there are good grounds for believing that the person will not comply with any conditions imposed, if released. Detention is authorised initially by a chief immigration officer – not by an immigration officer as you say – and is reviewed by an immigration service inspector within 24 hours. There are then monthly reviews at increasingly senior levels. I do not find it surprising that, in 22 of the cases referred to in the Amnesty International report, release was granted before the case was finally resolved. This is surely evidence in itself of the effectiveness of the reviews.

You say "some detainees (but not all) are eligible for bail". Following changes made by the Asylum and Immigration Appeals Act 1993, anyone refused asylum can appeal to independent appellate authorities and anyone who has appealed can apply for bail.

It is not the case that immigration officers ignore their obligation to tell detainees of the reason for their detention. All detainees are told orally, in a language which they understand, of the reasons for detention. In addition, anyone who is refused entry or is being removed as an illegal entrant or is the subject of a deportation order is given notice in writing, setting out their rights of appeal and giving details of the free advice and assistance available to them.

Britain complies with its obligation under international conventions to which it is a signatory. Our system has to deal fairly and promptly with genuine refugees and at the same time combat bogus asylum claims. Powers of detention are necessary in some cases. We seek to detain as few people as possible and less than 1.5 per cent of asylum seekers are currently detained. Detention is a necessary part of a policy of firm and fair immigration control.

Nicholas Baker,
immigration minister,
Home Office,
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Main point of pay-offs

From Mr Michael D Varcoe-Cocks.

Sir, In a comment on rolling contracts, Lex (October 19) writes: "Defenders of rollers say they do not necessarily reward failure as boards can insist on a reduced pay-off if performance is poor", and suggests that the departure from Automated Security (Holdings) of its chairman and chief executive gives it "the chance to show whether that is so".

Lex completely misses the fact that the starting point has to be the service contract. If a company has performed poorly, pay-off can be reduced only if the contract provides for compensation to be reduced for poor performance.

Of course, if it could be shown that the executive breached the terms of his employment, that would be another matter. But how many service contracts ("rollers" or not) set out a required standard of performance? Even then it would be a very difficult task to prove that a company's poor performance was caused directly by one or more senior executives.

A person who tries and fails should not receive performance-related benefits, but it must be wrong to try to claw back contractual entitlements which are not performance-related.

Michael D Varcoe-Cocks,
5 Brackenbury Road,
London W6 0BE

Legal challenge to state aid can be easily launched

From Mr Tony Hockley.

Sir, In an otherwise excellent comment upon the European Commission and state aids ("Controlling state aids", October 19) you fail to recognise that some progress has already been made. Despite the Commission's approval of the staggering sum of FFr20bn in aid to Air France, it is now easier than in the past to pursue a legal challenge to the decision.

For its part, the Commission has moved from acting as a "rubber stamp" for aid schemes, to much more thorough investigation. It is indicative of this that the published decision on the state cash injection into Air France in 1992 was less than four paragraphs long, whereas the more recent decision runs to 17 pages and provides detailed commentary.

It is true that most of the conditions imposed by the Commission upon Air France were, in fact, proposed by the airline itself. Nevertheless, the aid will be granted in three phases and will be dependent upon Air France meeting these conditions. In addition the Commission has gone as close as is legally possible to secure the privatisation of Air France by making eventual privatisation a condition of approval.

The weakness in the policing of state aids does not appear to be in the Commission, which has worked hard to make liberalisation a reality. Following the decision to allow the Air France aid, Sir Leon Brittan told reporters that the French had threatened the Commission with an "empty chair policy", and the French government said that it would stop at nothing to ensure that the aid was approved. We can only hope that successful legal challenges to decisions on state aids and further market liberalisation will give the Commission stronger grounds to resist political menaces in future.

Tony Hockley,
economic adviser,
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Frustrated electorate

From Mr A D Gatling.

Sir, Far from leading to the government's defeat in the next election ("Brittan and Howe hit back on EU", October 14), I suspect that in the next two years Conservative strategists will come to realise that an anti-federal stance will represent their only chance of winning the next election.

As one who spent a considerable amount of time canvassing in the Euro election, I can advise Lord Howe and Sir Leon Brittan that present policy over Europe is deeply unpopular with the majority of the electorate, who are frustrated at having no democratic way of expressing their resentment at the steady encroachment of their national identity and institutions.

They also resent being described as "right wing" for opinions which are held across the whole political spectrum.

A D Gatling,
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Good idea – but will there be anyone working?

From Mr Tom O'Leary.

Sir, Mr A Lister's suggestion (Letters, October 8) that the millennium should be celebrated in the UK by the government removing every traffic cone from every road by 4.30pm on December 31 1999 is admirable. However, whoever heard of any government department or associated contractor working between December 24 and January 3?

Indeed, it is only to be hoped, because of the debate concerning whether the millennium should be celebrated at the end of 1999 or 2000, that public services and industry don't decide to bridge the entire year 2000.

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FINANCIAL TIMES

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Thursday October 20 1994

Re-engineering the Treasury

The long-standing objective of the UK Treasury has been the achievement of sustained growth and higher living standards. The manifest shortfall of Treasury performance against objective in the post-war period makes an unanswerable case for radical reform of the institutional structure of Whitehall's most powerful department. The results of the fundamental expenditure review announced yesterday by Treasury permanent secretary Sir Terry Burns are, at least by British standards, genuinely radical. But so were the Treasury policies that culminated in sterling's departure from the European Exchange Rate Mechanism. How are we to judge these sweeping reforms?

The striking feature of the UK Treasury is the sheer breadth of its remit. Unlike the US, France and Germany, it still retains ultimate control over monetary policy. Unlike the French finance ministry it is the chief source of economic advice in government and does not leave control of public expenditure to a separate ministry. Its role is central. To that extent the current review proposes a wider reform of governmental machinery than appears at first sight.

No doubt a New Zealand administration would have taken a more vigorous axe to the various parts of this highly centralised machine. Yet the current review could hardly be called soft, since it seeks both to decentralise much of the Treasury's second-guessing role, while dismissing a quarter of the department's top civil servants. In so far as objectives are being clarified and senior civil servants are given a less cluttered strategic role, this is all to the good. Yet there must be some unease at the proposals to push part of the task of controlling expenditure back onto the spending departments.

There is, admittedly, some merit in devolving responsibility for public sector pay, in that a Treasury pay policy driven by public expenditure concerns makes for poor staff management and leads to results that can be remote from labour market reality. In their wider monitoring role Treasury officials' concerns are all too often with short-term objectives. The absence of a public accounting discipline that provides protection for capital projects as against current expenditure notoriously exaggerates that fault.

The control of public expenditure is, nonetheless, one of the tasks that the Treasury has done well by international standards, at least since the second half of the 1970s, when a catastrophic failure of control led to the arrival of the International Monetary Fund. And while the Treasury is often accused of being remote, it does have the advantage of independence in dealing with the departmental clash of vested interests.

All history suggests that any relaxation over public spending has a nasty way of ending up in tears. Those who have watched the Treasury's performance with increasing disillusionment over the years might feel that it is proposing to loosen its grip in an area where it has done rather well in order to devote more resources to policy activities where its record has been dismal. A more fundamental worry is that job insecurity at the top of Whitehall will dramatically transform the notion an independent civil service. Criticism of the Treasury can be overdone. But in view of the record, a reform of the Treasury driven from within is bound to raise more than the odd doubt.

Paying the price

Europe's banks have lost their struggle against legislation which is intended to ensure quick and cheap transfers of cash across borders. Given that a quarter of a Ecu100 payment can be expected to disappear in charges, and small businesses face considerable uncertainty over how long a payment will take, it is hard to feel too much sympathy for them.

The service has been performed so badly for so long mainly because banks had little incentive to do better. Cross-border payments were a marginal and barely profitable activity, accounting for a tiny proportion of a bank's transfers of cash. The business also had perverse incentives: the longer a bank delayed the transfer of cash, the more money it gained in interest.

In the past two years banks have woken up to the fact that they could be missing a trick. As the European market becomes a reality for small companies, banks have realised that they can attract customers by providing efficient transfers. A company making many transfers to another country may value such efficiency above many other kinds.

Yet competition has been painfully slow to raise standards among the mass of banks. A study carried out by the European Commission shows that charges are high and services opaque. It would have been preferable for banks to implement the voluntary charter proposed by Ms Christiane Scrivener, the consumer affairs commissioner, but there was also a case for Commission action.

The proposed directive does not appear excessively harsh in most respects. It is feasible for banks to clear cash into an account within six days; it is also reasonable to require them to provide clear information about charges and transfer times. The Commission has avoided any move to set levels of charges, which may well remain high until the business becomes less marginal.

In one respect, the directive is too prescriptive. It says that banks should be banned from double-charging, or levying a charge on the receiver of the money as well as the sender. It is reasonable to prevent banks doing this when a customer has clearly instructed them not to do so: to do otherwise is close to fraud. But there may be cases where customers are happy to split charges, and many small banks rely on being able to charge for receiving payments.

Given the efforts of larger banks to improve services, it seems unlikely that they will be perturbed by the directive. Banking groups argue it creates an uncertain legal background for their business in the next few years. But any large bank investing in a project that does not meet the Commission's minimum standards might as well abandon it as uncompetitive anyway.

East needs west

The collapse of the Soviet system was a victory for those who argue that market forces create a more efficient, dynamic and creative economy than centralised commands. But the European Bank for Reconstruction and Development (EBRD) observes in its first Transition Report that, despite some successes, much remains to be done if that victory – now irreversible – is to be fully exploited.

The central European countries that took harsh measures to restore macroeconomic stability and backed them up with privatisation, legal, banking and other institutional reforms are already emerging from recession with much more efficient and productive economies.

In others, notably Russia, performance remains mixed. There privatisation has moved ahead, but the reforms needed to stabilise the economy remain seriously incomplete. Ukraine is on the starting block, while in the war-torn Caucasus the economic base has been largely destroyed and energies have yet to be focused on reform.

Much has been achieved by the governments and the 450m people who live and work in the 25 countries surveyed by the EBRD. But the review is also right to call on wealthy states, which already have functioning market economies, to help the re-integration of the transitional economies into the network of global trade and investment.

As the report makes clear, the record of the European Union in this respect leaves much to be desired. Mired in recession for the past three years and still digesting the Maastricht treaty, the EU has approached trade negotiations with nit-picking narrowness. It has also been far too ready to impose anti-dumping and other restraints on trade in "sensitive" products, such as steel, textiles and processed foods, which make up the bulk of exports from central Europe.

The countries in transition desperately need easier access to EU markets, and the higher foreign investment this would attract, to offset the unemployment caused by the restructuring of their obsolete Soviet-style economic systems. Without freer access for their exports and more investment, it may prove impossible for countries in the region to achieve the east Asian levels of growth needed to narrow the gap between living standards on both sides of Europe.

Five years after the collapse of communism, the EBRD's review underlines how slow western Europe has been in rethinking the future shape of a wider Europe. Such changes to western thinking and institutions are essential if western Europe is to seize the opportunities offered by the large potential markets and cost-effective labour on its doorstep.

Patrick Harverson on US retail investment brokers' fight against the giants of the financial services industry

Competition for the investor's dollar

This week's sale of Kidder Peabody to rival Wall Street securities house PaineWebber has created a new member among the elite of the US retail brokerage business.

By acquiring Kidder, PaineWebber boosts the size of its army of stockbrokers to 6,600. Only Merrill Lynch (with about 12,200 brokers), Smith Barney (11,200) and Dean Witter (7,300) are bigger.

These brokers are the front line of the retail investing industry. For PaineWebber, the extra hands will allow the firm to compete more effectively with the other giants of the financial services industry – the mutual fund groups, banks, insurance companies and discount brokers – which are scrapping for the right to manage the trillions of dollars Americans have invested in financial assets.

Retail investment broking in the US has not always been so competitive. Little more than a decade ago, it was a relatively simple business. Its targets were people like the dentist from Des Moines with a little money to spare. He could buy a certificate of deposit from a bank or a government bond from a broker and know that his money was secure. If he wanted to risk his capital, he could buy one of the few mutual funds sold by fund groups or, more likely, invest it directly in the stock market through a broker like PaineWebber.

Today, the Des Moines dentist has been joined by millions of other Americans who want to invest in securities. They can choose from a vast array of investment products sold by a variety of financial intermediaries.

The fastest growth has been recorded in the mutual fund business, amid intense competition between financial services providers. In 1980, just 6 per cent of US households invested in a mutual fund. Ownership levels had jumped to 27 per cent of households by the end of 1992 (the most recent date for which data are available). Today, mutual fund assets total $2,200bn, up from only $50bn in 1977, and more than double the total just five years ago.

Mr Joe Grano, head of PaineWebber's retail broking force, says the flow of money in recent years into investments such as mutual funds has been "mind-boggling". "There has been a mad rush by non-traditional competitors to get into our business," says Mr Grano.

These "non-traditional competitors" include discount brokers, banks, specialist fund groups and insurance companies which are fighting over the retail dollar with full-service brokers such as PaineWebber and Merrill Lynch.

The discount brokers have prospered in recent years by offering investors low-cost services. Since fixed commissions were abolished in 1975, firms such as Charles Schwab, Fidelity Brokerage and Quick & Reilly have been steadily winning business from the full-service brokers.

Although dwarfed by the full-service firms in the size of their broking forces and assets, they now account for about 14 per cent of retail broking commissions in the US, up from about 5 per cent 10 years ago. Firms such as Charles Schwab have been particularly successful in winning mutual funds business from the big brokers by offering investors an easy way to buy into a wide range of mutual funds with low commissions and "no-load" funds that charge no commission.

Insurance companies are also beginning to make their presence felt in the retail market. Mr Bill Hartman, securities industry analyst at JP Morgan in New York, says that insurers have a built-in advantage over other financial services firms because of their long experience in selling specialised tax-efficient investment products direct to investors.

Mr John Steffens, executive vice-president of Merrill Lynch, the second largest mutual fund manager in the US, is taking the threat from the insurers seriously. "The insurance companies have some definite advantages, because they have significant relationships [with customers], big asset bases, and large distribution systems in place."

The biggest threat to full-service brokers' retail investment business, however, comes from the banks. They can sell investment products through their large branch networks, which offer growing competition to the brokers' own distribution networks.

Banks are relatively recent entrants into the retail investment market after decades in which regulatory barriers kept the banking and securities industries apart. Five years ago, banks managed mutual fund assets worth $43.8bn. By April of this year, that figure had jumped to $219.4bn, or 10 per cent of the mutual fund market.

US retail investment market: the main players

Full-service brokers

Merrill Lynch: biggest with 12,200 brokers and $1.4bn profits in 1993
PaineWebber: recently expanded to 6,600 brokers

Discount brokers

Charles Schwab: dominant in discount sector, ie low-cost or no-fee broking
Quick & Reilly: 750,000 customers

Mutual fund groups

Fidelity Investments: the biggest fund group, with $272bn funds under management, and 7m customers. Also owns a discount broker
Vanguard: $132bn of mutual-fund assets under management

Banks

PNC Bank: the biggest bank selling funds through branch network with $19.5bn fund assets under management
NationsBank: second biggest with $13.7bn in assets

Insurance companies

Prudential: biggest US insurer with $372bn in total assets under management
MetLife: $163bn in fund assets under management

The growing competition in the retail investment market is encouraged by demographic trends which are increasing the demand for savings products, says Mr Grano of PaineWebber. As the number of retired people expands, the working population will have to save more to pay for care of the elderly, he says. In the next 30 years, the number of people over 65 will double.

He also expects a rise in demand from the generation of baby-boomers, now passing the age of 40. "They are entering a period of their life when they have the most earning power and disposable income," he says.

Financial services providers are coming up with an ever-wider array of products tailored to their customers' needs. These range from futures and options, to new forms of pension plans and funds investing in emerging market.

Technology is revolutionising the industry by providing investors with new ways to make investment decisions and to acquire financial information. They can initiate transactions and monitor the performance of their investments on a laptop computer at home or in the office, 24 hours a day.

Mr Roger Servison, head of the Fidelity group's discount brokerage unit, says 71 per cent of phone calls to the fund group – the largest in the US – are answered by computers which use automated response technology to provide the caller with the information required.

These new techniques also allow brokers, fund groups and their competitors to improve efficiency and save money. Without automated response technology, says Mr Servison, the company would need to hire an extra 4,000 employees.

By allowing firms to cut their costs, technology also enables them to charge lower fees to their customers, a crucial advantage in a business that has become so price-sensitive.

Yet not all investors are chasing the lowest commissions: while some want inexpensive, efficient transaction-based services, other are looking for high-quality professional investment advice, which does not come cheaply.

As Mr Steffens of Merrill Lynch puts it: "The market is getting more segmented. Some people are looking for an increased level of service. Others are looking for rock-bottom prices just to execute a trade."

Mr Servison believes investors are increasingly seeking the latter. "Price seems to be winning out over advice. On the brokerage side you see it in the accelerating gains in market share the discount brokers are enjoying over full-service firms. On the mutual fund side, you see it in the increasing share of the market the no-load business is winning."

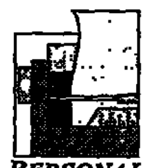
That view, however, is contested by the full-service brokers. Mr Steffens says that future prosperity lies in building long-term relationships with investors by providing them with a broad range of products backed by expert advice.

Long-term business trends are working in the big brokers' favour, believes Mr Grano. He says that more than 20 years ago, brokers mostly concentrated on handling investors' trades. Ten years ago, they worked on attracting investors' assets. Today, says Mr Grano, success lies in finding solutions to investors' problems, and meeting their individual needs.

"The '70s were a transactional era. The '80s were an asset-gathering era. The '90s are a problem-solving era."

If he is right, the full-service brokers may yet hold their own against the competition over the rest of the decade. With thousands of highly paid brokers, costly branch networks and hundreds of millions of dollars invested in technology, they cannot afford to be wrong.

Rising pressure on German unity



PERSONAL VIEW

In the run-up to last Sunday's German elections, controversy over Europe was conspicuous by its absence. This did not happen out of negligence or lack of concern. Germany's main political parties simply could not find enough uncommon ground. So they left it to the marginal parties of a scattered left to raise the subject: the Greens quarrelled with the Brussels technocrats, while the recycled communists sounded their perennial anti-capitalist refrain. Only on the eve of the elections was there a hint of discord. The leaders of the opposition Social Democrats announced that, if they won power, they would renegotiate the terms for a future European currency to guarantee monetary stability.

To be pro-European is not only part of political correctness in Germany. It also reflects a widely shared notion of national interest, economic well-being and psychological reassurance. Germany regards the idea of constructing Europe around an "inner core" as a practical matter, not a religious question. However, spelling out Germany's European agenda until the end of the decade will not be easy.

Germans agree there is no alternative to building Europe. However, it will not be without toil and tears – as the issues of economic and monetary union, European defence and the integration of the more eligible central European countries will remind us in coming years.

First, Germany under Chancellor Helmut Kohl will press for early admission into the EU of its immediate neighbours to the east. It will be much less enthusiastic about countries further away. Between the Czech Republic and the neighbouring German *Länder* of Bavaria and Saxony, cross-border trade in goods and services is growing fast. Much German capital investment is flowing to the Bohemian lands. The direct line between Munich in the south and Dresden in the east still goes via Prague.

Poland has courageously adopted market reform. Yet it still has not much to offer that would make it an indispensable member of the EU. Germany's interest in seeing Poland in the Union has much to do with geography. It wants a stable neighbour to help to absorb any trouble in the former Soviet Union.

Hungary, still struggling with the communist past, is badly in need of some reassurance against the old demons of its Balkan neighbourhood. The big problem for German policymakers in this part of Europe is that the Common Agricultural Policy of the past is incompatible, financially and otherwise, with the German view of the future. But in terms of German farmers and their political muscle, the CAP has not yet outlived its usefulness.

Germans agree there is no alternative to building Europe – but it will not be without toil and tears

How to make European security effective after the waning of the Pax Americana will be even more controversial. The Social Democrats will not raise their sights about deploying the Bundeswehr, the German armed forces, outside Nato except under massive United Nations pressure. However, Mr Kohl's Christian Democrats are starting to understand that serious trouble in various parts of the world may require quicker action than the UN can furnish.

The Free Democrats, junior partners in the governing coaltion, will tread uneasily over security matters. They will give up hope only gradually of international problems simply melting under the pressure of German goodwill. Now that the constitution no longer provides a pretext for inaction over "out of area" Bundeswehr deployment, Germany will agonise about the national interest in Europe as well as in the wider world.

Last, but not least, the effects of the Maastricht treaty will force the Germans to confront the D-Mark's future. This issue reaches deep into the collective memory of a nation that has had two catastrophic inflations this century. German society has a highly developed need for security, and Germans share with their French neighbours a distrust of politicians managing their money. Any suspicion of cross-breeding between the D-Mark and, say, the drachma would turn Germany into a hothouse of rebellion. The Germans may play safe and stick to the D-Mark and their trust in the Bundesbank, but that may not please all their neighbours.

Five years after the fall of the Berlin Wall, Germany is facing the consequences for the whole of Europe of German unification and the end of the cold war. Politicians and the wider public still tend to believe that what is good for Europe is also good for Germany. But the choices ahead will develop a divisive edge. The 1994 Bundestag elections may have been the last ones to provide a very nearly unanimous German view of Europe.

Michael Stürmer

The author is director of Stiftung Wissenschaft und Politik, the German foreign affairs and defence policy institute based in Ebenhausen

OBSERVER

Communist capitulation

■ What do Lord Prior, chairman of GEC, Robert Kuok, the Malaysian tycoon owner of the South China Morning Post, and communist official Zhang Baifa have in common?

They are governors of Beijing's newest club. Appropriately known as the Capital Club, it is not only located in the Chinese capital, but is also housed on the 50th floor of a building called the Capital Mansion. Membership fees – $5,000 for individuals and $7,500 for corporate members – are also pretty capital-intensive.

Officially opened last Saturday, the club is one of a growing band in Beijing and other Chinese cities where the new business elite can rub shoulders with Chinese politicos. In this case, other governors include the vice mayor of Beijing, who is a close confidant of Deng Xiaoping, and the vice-mayor of Shanghai.

Sadly, members of the new and much-hyped London Capital Club should not expect reciprocity, however. The developers of the Chinese venture, Club Corporation of America – specialists in "member-sensitive staff" according to the bumf – have nothing to do with Dieter Klostermann, the Hong Kong-based chairman of the confusingly similar-sounding CCA Group which is behind the London project.

Klostermann, who broke away from the American group in 1980 to set up his own Far Eastern operation, will presumably see his old associates' first incursion into Asia as something of a provocation. He has his own plans for Beijing – if there is anyone left to sign up.

Sea trials

■ Golfers in search of the ultimate water hazard need look no more. Royal Caribbean Cruise Lines has designed an 18-hole golf course complete with sand traps, trees and Scottish heather to go on top of its latest ship, Legend of the Seas.

Royal Caribbean insists that it "isn't one of those miniature golf courses with windmills, pirates and volcanoes". The all-weather course has been designed to be as challenging as some of "the great courses of the world". Admittedly, the longest hole is 32 feet and the tees are only five-feet wide, but the shipping company insists that there is a big demand out there.

It has even dredged up some statistics to prove that the number of rounds of mini-golf played in the US has risen from 100m in 1980 to 170m this year.

Envy party

■ Conclusive evidence that Germany's once madcap Green party has sold out to the political establishment.

'Kiss me and I turn into a publisher'

The dedicated environmentalists, who now constitute the third largest parliamentary group in the Bundestag, had ear-marked November 4 and 5 for the party conference. Now the proceedings, to be held in Cologne, will be squeezed into the one day, November 5.

The reason? A rather large number of the delegates apparently wish to attend the annual press ball in Bonn the previous evening, a huge but tedious event attended by the massed ranks of the great and good.

Tickets cost DM250, black tie is obligatory, and about the best entertainment is to be had watching self-important politicos fall over each other to secure their picture in a Sunday newspaper. All that mould-breaking understandably produces a thirst for some champers.

Gated

■ So Bill Gates, Wunderkind entrepreneur, co-founder of Microsoft and the richest men in the US, is not invincible after all. His well-flagged book on the future of the information highway, titled *The Road Ahead*, has taken a wrong turn on the way to publication.

Viking, which is thought to have paid an advance of more than $2.5m for the rights to publish Gates' musings, now says that the book's release has been postponed – from November to next March.

Also delayed – again – is the launch of Microsoft's next version of Windows PC software, which was originally scheduled for release in 1993 and is not now expected until May or June 1995. Could the latter have proved something of a distraction for the first-time author?

Show jumper

■ Pity poor old Malcolm Barr, chairman of Barr & Wallace Arnold Trust, who is currently besieged by his two rebellious nephews.

Young master Nicholas and master Robert are calling for the heads of no less than the chief executive and finance director and claim they have the backing of a majority of the shareholders of the leisure and motor distribution group.

For uncle Malcolm, 68, the prospect of losing his chief executive is an uncanny reminder of his other job as chairman of Leeds Permanent building society. He has been searching for a chief executive since February 1993, when Mike Blackburn escaped to run the Halifax building society. After 22 years on the board of the Leeds, Malcolm retires in January – an event which may in itself speed up one of the longest running CEO searches in recent times.

But the question remains whether Barr & Wallace will still be his nice little earner in retirement. After all, to lose one chief executive may be regarded as a misfortune; to lose two might look like carelessness. Perhaps he should take a few tips from his loyal son-in-law, show jumper John Whitaker, on how to stay in the saddle.

EU who?

■ Disappointing news for anyone trying to sell Europe to Asia's booming economies. A study by the European Commission into the European Union's image in south-east Asia found. . .no image at all. "Most people thought 'European Union' was an insurance company," sighs one Eurocrat.

FINANCIAL TIMES
Thursday October 20 1994

Cuts follow government expenditure review

UK Treasury to shed one in four senior staff

By Philip Coggan, Economics Correspondent

The UK's Treasury mandarins, one of the elite groups of Whitehall, are set to become some of the earliest victims of the British government's fundamental expenditure review.

Around one-in-four of the Treasury's senior staff are set to lose their jobs as part of a review of the finance ministry's functions and operations.

Although many of the departing staff can probably look forward to senior jobs in the City, on top of redundancy packages, the review is causing much disquiet among Treasury officials. Some believe that the ability of the Treasury to do its job will be undermined.

Part of the rationale for the review, which was overseen by the industrialist, Sir Colin Southgate, chairman of Thorn EMI, is that the Treasury should stop "second-guessing" government departments on small items of expenditure. Instead, the Treasury should concentrate on the strategic issues that determine the long-run path of public spending.

The review also suggests that the Treasury should hive off some of its duties, such as the supervision of Civil Service personnel management and pensions, to other government departments. Mr Kenneth Clarke, the chancellor of the exchequer, has even suggested that the Treasury's much-cherished economic forecasting function be subject to the market testing programme in two years, a proposal dismissed by Sir Colin. Market testing would require Treasury economists to compete with private sector analysts and academics to provide forecasting.

Treasury wants to hand tasks to SIB .... Page 10
Editorial Comment .... Page 15

Cuts at the UK Treasury will do little to make a dent in the government's budget deficit, forecast by the Treasury to be £36bn ($56.88bn) in 1994-95. The running costs of the Treasury will be just £81m this year.

But with all government departments forced to make a fundamental review of their expenditure, the Treasury, guardian of the nation's purse strings, had to set an example.

Trade unions fear the Treasury cuts could be the precursor to widespread Civil Service cuts, although Sir Terry Burns, the economist who is the Treasury's top official, was playing down fears yesterday.

The review follows several years of substantial changes at the Treasury. After sterling's humiliating departure from the European exchange rate mechanism in 1992, a new policy framework was established, giving greater power and influence to the Bank of England. The minutes of the September 7 monetary meeting show that the Bank's governor, Mr Eddie George, was the prime mover behind the recent rise in UK interest rates.

Former BCCI chief jailed for 11 years by US court

By Richard Waters in New York

Mr Swaleh Naqvi, former chief executive of the Bank of Credit and Commerce International, was sentenced to 11 years and three months imprisonment in the US yesterday for his role in the multi-billion dollar fraud at the collapsed bank.

He was also ordered to pay $255.4m restitution.

The sentence, at a federal court in Washington, was the maximum permitted under a plea bargain agreement between Mr Naqvi's lawyers and the US Department of Justice. It makes Mr Naqvi the most senior BCCI officer yet jailed over the fraud.

The sentence will be reduced by the three years and one month Mr Naqvi has already spent in detention in Abu Dhabi and the US. The Justice Department said it would apply for a further reduction if Mr Naqvi assists with its BCCI investigations over the next year.

Federal pre-sentence reports described the banker as destitute, so his ability to pay the restitution is in doubt.

Mr Naqvi pleaded guilty in July to three criminal charges of fraud and conspiracy at BCCI, which was closed by international regulators three years ago. He admitted he engaged with other BCCI executives in a racketeering conspiracy to control several US banks.

Mr Naqvi will face additional charges in New York tomorrow, when he is due to be arraigned before a state court. Prosecutors acting for Mr Robert Morgenthau, the New York district attorney, are pushing for a further, higher sentence.

The move is seen in part as an attempt to force him to help with their inquiries into the affair.

Mr Joseph diGenova, Mr Naqvi's lawyer, said his client had already given considerable help to a number of investigators since being being sent to the US by Abu Dhabi five months ago. These included the Federal Bureau of Investigation, the Internal Revenue Service and the Immigration and Naturalisation Service, he said.

Mr Naqvi has also been interviewed before two federal Grand Juries in the past three weeks, in Atlanta and Washington.

One investigator, who has followed the BCCI case from the start, said the Grand Juries were considering whether to indict junior BCCI employees, implying that the Justice Department has halted investigations into whether outsiders, including prominent figures in the US, may have aided the fraud.

Chrysler plans $100m venture in Vietnam

By Our Vietnam Correspondent

Chrysler, the US carmaker, is planning a $100m joint venture in Vietnam to build minivans and possibly four-wheel drive vehicles.

The venture would be the first by a US carmaker since the lifting of the US economic embargo on Vietnam earlier this year. The negotiations come as other international vehicle makers are considering projects in the country, in spite of difficulties in finding local partners with experience in the industry.

Mr Robert Eaton, the Chrysler chairman, arrived in Hanoi on Tuesday to meet Prime Minister Vo Van Kiet and the ministers of transport and heavy industry to discuss the project. The company's interest in Vietnam follows an early entry into the China market, where production of the Beijing Jeep began in September 1985.

In May, Mitsubishi Motors became the first Japanese carmaker to enter a joint venture in Vietnam, quickly followed in June by Renault, the French state-owned group, which signed a letter of intent to begin car assembly in the country.

BMW, the German carmaker, has a contract to assemble cars in Vietnam and Mercedes-Benz hopes to do the same.

Vietnam is eager to avoid domination of its motor industry by one country and has yet to decide how it will divide up shares of the motor assembly and manufacturing industry.

In Chrysler's case, industry sources suggest that the joint venture partner is most likely to be a division of the heavy industry ministry rather than a Vietnamese motor manufacturer.

Until two months ago, Chrysler was pursuing negotiations with Mekong Corporation, a three-way venture between Japan, Korea and Vietnam, to build a four-wheel drive vehicle.

However, the deal apparently fell through when the Korean partner made clear it was unwilling to relinquish sufficient equity control to Chrysler.

Since then, Chrysler has been hunting for other partners, determined to set up some sort of facility in Vietnam. It was reported yesterday that the company has already decided on a site for the venture.

If Chrysler wanted to sell domestically it would have to find a way round recent foreign currency regulations stipulating that revenue from any product sold in Vietnam must be in dong, the local currency, which is not freely convertible.

As an emerging market, Vietnam is being viewed with great interest by several of the world's leading vehicle makers.

Less than 5 per cent of the country's 72 million people drive cars.

Russia

Continued from Page 1

of a standby agreement and the addition of a third tranche to an economic reform loan of which they have already drawn down $3bn. If the strategy proved successful, he hoped for a further $6bn loan to stabilise the rouble.

"If the IMF decides not to advance these loans, or does not agree with our schedule of how the loans should be paid, then this approach would certainly be put in doubt," Mr Shokhin said.

Brussels plans transfer law

Continued from Page 1

was enacted. The Commission's study found Europe's businesses and customers pay an average Ecu25.4 per Ecu100 cross-border payment, Ecu2 more than they paid a year ago. The average total time for a transaction is almost five working days.

Mrs Christiane Scrivener, the commissioner who initially supported a voluntary code of conduct, hailed the proposed legislation. "We could not put up with this situation for ever; at some point we had to act," she said.

Mrs Scrivener urged ministers to agree legislation as soon as possible, and noted that it required a simple majority only rather than unanimity. Internal market ministers will consider the proposal at a meeting in Luxembourg in October 31.

The Commission wants full disclosure of the costs of cross-border transactions to customers; but it does not prescribe maximum charges because this could encourage cartels and run foul of competition law.

THE LEX COLUMN

Defence manoeuvres

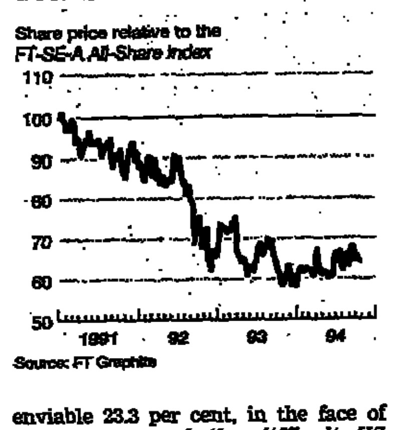
GEC may well want to retain the freedom to make a hostile bid for British Aerospace as a way of chivvying it into friendly talks on merging their defence interests. But actually moving ahead with a hostile bid can never have been more than a last-ditch option. BAe would have been able to use its immense strategic importance to create the most almighty political stink. The ensuing fight would have been more bitter even than GEC's two bids for Plessey in the 1980s.

This does not mean Lord Weinstock will believe BAe's promise to resume friendly talks provided GEC gives it a free run in its bid for VSEL. If BAe bags the submarine maker, it will be under little pressure to accede to GEC's demands. VSEL's cash pile will strengthen BAe's balance sheet, while earnings should be enhanced as the submarine group's profits could be set against BAe's tax allowances.

A bid by GEC for VSEL must therefore remain a high possibility. Lord Weinstock would probably have to pay more than VSEL was worth as a stand-alone entity. But he might be able to justify such a bid to himself on the grounds that it would keep BAe vulnerable and open to approaches.

Lord Weinstock's hopes of restructuring the UK defence industry through a mega-merger may not be an ideal option. Far better to reorganise Europe's industry through a series of cross-border mergers. The snag is that concerns over national sovereignty make such deals politically impossible. But if BAe wants to escape GEC's affections once and for all, it will have to advance beyond its current mish-mash of continental alliances.

FT-SE Index: 3060.8 (-24.5)



Source: FT Graphite

Smiths Industries

A third of the 12 per cent increase in Smiths Industries pre-tax profits last year was due to acquisitions and exceptional items. But it would be churlish to take issue with Smiths' achievement in attaining record profits and earnings per share at this point in the economic cycle. With half of its turnover deriving from the deeply troubled aerospace sector, Smiths' management has deftly avoided the substantial problems encountered by other companies in the sector.

Smiths' success lay in defending or enhancing margins in its three core business areas. In aerospace, for example, turnover slipped but margins were maintained at more than 10 per cent. In medical systems, they rose to an enviable 23.3 per cent, in the face of rising costs and the difficult US healthcare environment. Despite Smiths' small size compared with international competitors, its concentration on profitable niches has evidently insulated the group from the full force of recession. Moreover, the ample cash generated by the core businesses has been sensibly deployed on a succession of unspectacular but well-timed industrial and healthcare acquisitions.

At present, the group's aerospace activities are dormant in profits terms. After a drastic restructuring, the awakening promises to be spectacular, even if recovery in the sector is still some years off. But investors should not be deterred by the delay. Analysts expect the group to make pre-tax profits of £130m-£133m in the year to next July, putting the shares on a modest premium to the market.

Booker

Given that Booker's dividend cover last year was 1.3 times and falling, shareholders have more than a passing interest in its quality of earnings. Salmon farming has become a highly cyclical, commodity business with wide price fluctuations and regular bouts of disease. So the relaxed reaction to the proposed acquisition of Marine Harvest is testimony to the persuasiveness of new chief executive Mr Charles Bowen.

The deal will spread Booker's salmon risks by bringing in Chilean production and adding sales in the fast-growing US and Japanese markets. Disease control has also improved significantly over the past few years. Yet it is hard to argue the acquisition will reduce Booker's risks as a group. The purchase will more than treble its salmon production to nearly £100m a year. Though Booker argue this is modest in the context of group sales of £3.5bn, fish farming will contribute about a tenth of its profits.

Although Booker cannot eliminate salmon cycles entirely, it is currently making good money. It is also convinced it can cut costs faster than the 2-3 per cent a year fall in prices it predicts. But even after cost savings of around £3m a year, the £76m purchase price will not look a bargain if the 11 times multiple proves to be calculated on peak earnings. There was a real bargain to be had in 1992 when Unilever sold the Marine Harvest salmon business for £22m, but Booker passed up the chance.

UK housing

The gap between the bulls and bears on the outlook for the currently moribund UK housing market is surprisingly wide. Predictions for house price inflation range from a 30 per cent increase by the end of 1999 to nearly 50 per cent. Bulls and bears alike can root out evidence to support their forecasts. The bears stress falling tax privileges for mortgage holders, high levels of indebtedness and negative equity, and a weak demographic outlook. The continuing fall in numbers employed is still undermining job security and confidence. Finally, they argue there has been a structural shift in attitudes: low inflation provides little incentive to see housing as a speculative asset rather than a living space. The bulls, led by UBS, question the weight given to such factors and say underlying macro-economic growth will drive house prices upwards. Most importantly, they believe the UK's historic inability to hold down prices during economic upturns guarantees galloping house inflation.

The bulls' scenario would be undermined if the government delivers on its rhetoric. If inflation remains low, then housebuilders, DIY merchants, white goods manufacturers and the like face a gloomy end to the century. No matter which scenario proves accurate, the mortgage lenders, geared for a peak of 2m property transactions a year, look chronically over-staffed. Even UBS's optimistic model predicts only 1.8m transactions by 1997. With high operational gearing, the lenders should be seeking to cut at least 10 per cent of overheads, if not more.

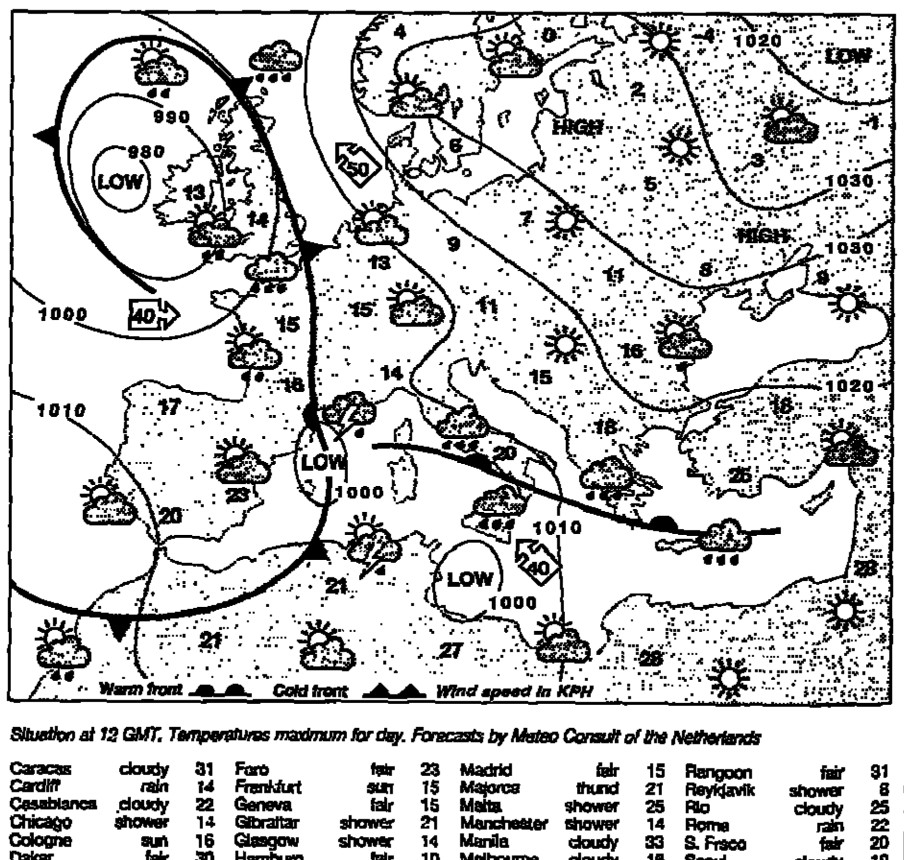
FT WEATHER GUIDE

Europe today

An active front will generate heavy showers in parts of southern France and the Balearics. In addition, the central and eastern Mediterranean will be unsettled. Southern Italy, southern Greece and Albania will have downpours during the afternoon and evening. Sunny periods in Spain will become more frequent from west to east but the south-east might have scattered showers at first. It will be dry north of the Alps, though temperatures will only be around 10C in Germany. The Low Countries and northern France will have a lot of cloud but rain will be confined to Scotland, northern England and Ireland. It will continue dry and virtually cloudless in Poland, Chechoslovakia, and most of Russia.

Five-day forecast

Heavy rain will increase a risk of flooding in southern Italy and southern Greece on Friday. During the weekend, other sections of Greece are expected to experience heavy rain. An active frontal system will give rain in northern France, the Low Countries and England. Central and southern Spain will become more settled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	16	Caracas	cloudy	31	Faro	fair	23	Madrid	fair	15	Rangoon	fair	31
	Celsius		Belfast	shower	13	Cardiff	rain	14	Frankfurt	sun	15	Majorca	thund	21	Reykjavik	shower	8
Abu Dhabi	sun	35	Belgrade	fair	15	Casablanca	cloudy	22	Geneva	fair	15	Malta	shower	25	Rio	cloudy	25
Accra	shower	29	Berlin	sun	9	Chicago	shower	14	Gibraltar	shower	21	Manchester	shower	14	Roma	rain	22
Algiers	thund	22	Bermuda	shower	27	Cologne	sun	16	Glasgow	shower	14	Manila	cloudy	33	S. Frsco	fair	20
Amsterdam	cloudy	13	Bogota	cloudy	21	Dakar	fair	30	Hamburg	fair	10	Melbourne	cloudy	16	Seoul	cloudy	19
Athens	cloudy	22	Bombay	fair	34	Dallas	cloudy	25	Helsinki	sun	2	Mexico City	cloudy	24	Singapore	cloudy	32
Atlanta	fair	24	Brussels	cloudy	15	Delhi	sun	31	Hong Kong	cloudy	26	Miami	fair	29	Stockholm	sun	7
B. Aires	fair	21	Budapest	sun	13	Dubai	sun	34	Honolulu	cloudy	30	Milan	shower	12	Strasbourg	fair	15
B.ham	cloudy	15	C.hagen	sun	9	Dublin	rain	13	Istanbul	cloudy	19	Montreal	shower	10	Sydney	cloudy	26
Bangkok	fair	33	Cairo	sun	30	Dubrovnik	rain	20	Jakarta	fair	32	Moscow	fair	-1	Tangier	shower	21
Barcelona	cloudy	19	Cape Town	fair	22	Edinburgh	rain	13	Jersey	shower	14	Munich	sun	13	Tel Aviv	fair	29
									Karachi	sun	35	Nairobi	shower	27	Tokyo	cloudy	23
									Kuwait	fair	32	Naples	thund	21	Toronto	shower	12
									L. Angeles	fair	24	Nassau	shower	30	Vancouver	shower	13
									Las Palmas	sun	26	New York	fair	18	Venice	fair	15
									Lima	cloudy	21	Nice	rain	19	Vienna	sun	12
									Lisbon	fair	18	Nicosia	fair	26	Warsaw	sun	6
									London	cloudy	15	Oslo	sun	5	Washington	fair	19
									Lux.bourg	fair	15	Paris	drzzl	15	Wellington	shower	12
									Lyon	shower	16	Perth	fair	25	Winnipeg	cloudy	13
									Madeira	fair	25	Prague	sun	9	Zurich	fair	14

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday October 20 1994

IN BRIEF

Volume gains for US telecoms

Third-quarter results from a clutch of US telecommunications companies showed continued fast growth in the volume of traffic, but also bore the scars of increased competition. Page 20

AMR profits beat forecasts
Shares in US airlines jumped sharply yesterday after AMR, the parent company of American Airlines, the first US carrier to report its quarterly results this season, produced profits far in excess of analysts' expectations. Page 20

Falling costs lift Metsä-Serla
Metsä-Serla, the Finnish forestry group, said yesterday its profits after financial items had more than trebled in the first eight months of the year, to FM382m ($82.7m) from FM124m in spite of flat sales and a drop in operating profits. Page 18

KOP seeks to strengthen capital base
Kansallis-Osake-Pankki, Finland's leading commercial bank, said it wanted to strengthen its capital base by FM3bn ($648.4m). The move is a final attempt to shake off the legacy of the country's banking sector crisis, which has brought it four years of losses. Page 18

Higher prices help Gengold
Gengold, the gold division of South African mining house Gencor, shrugged off the labour unrest that dented its previous quarter's figures and reported a sharp 42.8 per cent rise in after-tax profit for the three months to September. Page 21

UBS rejects Ebner board proposal
Union Bank of Switzerland yesterday rejected Mr Martin Ebner's proposal that a director be appointed specifically to represent the bank's registered shareholders. Page 21

Airbus Finance in $1bn loan launch
Airbus Finance Company, the sales finance company recently established by Airbus Industrie, the European aircraft-building consortium, yesterday publicly launched a $1bn syndicated loan, its debut transaction. Page 22

Forte separates County Hotels
Forte, the UK hotels and leisure chains, yesterday reshuffled its hotel portfolio, putting 80 of its lower-grade properties in a new company which will not carry the group's name. Page 23

Credits roll at Ealing
The latest instalment in the history of Ealing Studios, the home of classic British films such as *Passport to Pimlico* and *The Lavender Hill Mob*, ended yesterday when BBRK Group, its parent, went into administrative receivership. Page 24

Heavenly chorus
EMI Music, a New York-based offshoot of Thorn EMI, the music and rentals group, is strengthening its interests in the "Christian music" field by paying $15.5m cash for Star Song, which has a "strong roster" of Christian artists. Page 23

Pungent growth
Consumption of garlic in southern England has overtaken that of northern France, thanks to marketing by an Isle of Wight grower. Page 26

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
GEHE	531	+	12	Essilor	723	+	12
Falls				Seb SA	551	+	21
BMW	773	–	19	**Falls**			
CKAG Col Pf	800	–	20	Accor	557	–	11
Degussa	455.5	–	13.5	BIC	629	–	14
Mannesmann	373	–	25.3	Elf Aq Crt	308.5	–	20.5
Siemens	622	–	20.5	UFB Locab	362	–	16
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Amgen	58	+	4¾	Gun Ei Chem	550	+	20
Compaq	36⅝	+	1⅛	Marona Corp	442	+	17
Dig Equip	30¾	+	1¾	**Falls**			
McDon Doug	126¼	+	3¼	Banyu Pharm	895	–	34
Falls				Dowa F&M	642	–	16
MCI	24⅛	–	⅝	Hokuriku	716	–	24
Nth Am Mort	19	–	7	Noritake	755	–	25

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Danka Business	298	–	10
Benson Group	11	+	1½	Eurotunnel Uts	211	–	9
Havelock Europa	188	+	18	Glenchewton	25	–	4½
Paterson Zoch A	439	+	18	Harrington Kil	42	–	10
Riverview	785	+	60	Headlam	175	–	8
Senior Eng	82	+	3	McAlpine (A)	202	–	6
Shield Diagn	65	+	5	Scantronic	17	–	6
Utd News	508	+	13	Sidlaw	197	–	11
Falls				SmKl Beecham A	418	–	11
Auto Security	71	–	12	Vickers	163	–	6
Bowater	452	–	12				
Courtaulds	442	–	12				

Nokia rings up a five-fold profit increase

By Hugh Carnegy in Stockholm

Nokia, Europe's biggest manufacturer of mobile telephones, yesterday announced a near five-fold increase in profits in the first eight months of the year as its spectacular recent growth continued.

The Finnish group reported pre-tax profits during the period of FM2.29bn ($50m) up from FM466m at the same stage last year. Net sales rose to FM18.2bn from FM14.1bn, but Nokia said this represented a 40 per cent increase in turnover after accounting for exchange rates and restructuring.

The result, driven by fast-growing demand for Nokia's telecommunications network equipment and its mobile handsets, was ahead of expectations.

Mr Jorma Ollila, chief executive, said the outlook for the rest of the year was favourable. Nokia's ordinary shares jumped 5 per cent in Helsinki to close at FM632 after starting the day at FM600.

Sales of mobile telephones surged by 64 per cent, underscoring Nokia's position as the world's second largest manufacturer of mobiles after Motorola of the US.

The mobile division's sales reached FM5.03bn in the first eight months, compared with FM3.68bn in the same period last year.

Turnover in the telecommunications division jumped more than 50 per cent to FM4.22bn from FM2.74bn. Nokia said growth was strongest in Europe – mainly in Germany and the UK – and in the Asia Pacific region.

Mr Ollila anticipated the world market for mobile telephones would continue to show volume growth of between 50 and 80 per cent for at least the next two years. "We are concerned that strong growth like that can have its problems – the organisation can become very stretched. But we are not taking every contract, we are very careful that we can deliver what we have promised," he said.

Since taking over at Nokia two years ago, Mr Ollila has focused the group, once a sprawling industrial conglomerate, on telecommunications.

A problem continues to be its loss-making consumer and industrial electronics division, which saw sales fall in the period to FM4.1bn and which returned a further loss.

Nokia does not give details of divisional profits in interim results, but Mr Ollila said the division should return to profit in the last four months and he intended to keep it within the group, partly to help Nokia explore opportunities in multimedia products.

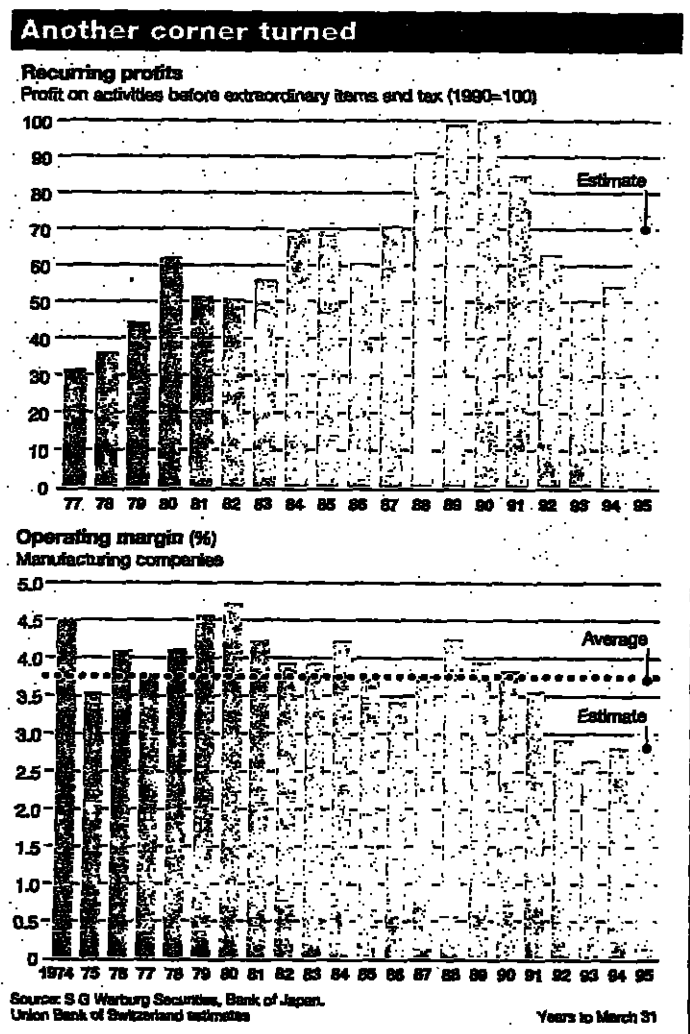
But Nokia announced it was considering floating off most of its 80 per cent holding in Nokia Tyres in Helsinki. The company is also 20 per cent owned by SP Tyres UK, part of the Sumitomo Group. It had net sales in 1993 of FM862m.

Nokia also announced it would invest FM310m in expanding its production facilities in Finland.

William Dawkins previews corporate Japan's results

Clues to recovery in coming weeks

Another corner turned



Source: S G Warburg Securities, Bank of Japan. Union Bank of Switzerland estimates

Valuable clues to the quality of Japan's economic recovery will emerge over the next six weeks, when more than 1,300 listed companies report their interim results.

The government's Economic Planning Agency declared at the start of September that Japan had pulled out of its worst post-war recession, confirming what many securities houses in Tokyo had long believed.

Economic indicators since then have been inconclusive, as might be expected at the bottom of a shallow growth curve. So the latest reports from corporate Japan will be the real test of optimism. It will also show whether foreign fund managers were right to cash in on the high yen and the market's high price/earnings ratios to turn from net buyers of Japanese shares in August to sellers in September.

The headline profits figures for the six months to September will provide less guidance about the health of the industrial economy than what companies say about business conditions. Forecasts of recurring profits – taxable earnings before extraordinary items – the most widely used performance gauge, vary widely.

This is because Japanese companies have great latitude to pad out recurring profits with sales from securities holdings, or to reduce profits by taking extraordinary charges at the moment they feel most suitable.

Some heavy one-off charges are expected, such as a Y175bn ($1.8bn) securities loss from Hanwa, a steel trader, representing an estimated 3.8 per cent of the entire market's annual profits, according to S.G. Warburg in Tokyo. In theory, companies can bury such charges indefinitely, so coming clean now can be read as a confidence in better conditions ahead, believes Mr Tom Hill, Warburg equity strategist.

Companies themselves believe that recurring profits will rise 7 per cent in the full year to March 1995, on stagnant or slightly rising sales, according to the Tokyo Stock Exchange. If they are right, this confirms an improvement on the 16.2 per cent fall in recurring profits and 5.4 per cent decline in sales for the year to March 1994.

Market forecasts, in contrast, are all over the place, ranging from a steep profits decline to a dramatic recovery.

Several trends are clear. Capital goods producers, including car, electrical equipment and semiconductor makers, have revised profits forecasts upwards in recent weeks, on the strength of strong demand for exports plus a mild pick-up in domestic demand for items such as personal computers. Luckily for them, the yen has risen less steeply during the current financial year than in 1993-94, giving Japanese exporters scope to adjust to the pressure on margins on overseas sales.

For the first time since signs of an economic upturn emerged early this year, the current recovery is starting to resemble Japan's classic pattern of a revival from recession led by exports and manufacturing. Exports rose 8.3 per cent in the six months to September, according to the finance ministry.

Yet the interim reporting season may also throw light on deep structural weaknesses not present in previous recoveries.

First, there is the poor state of the financial sector, part of which will be revealed tomorrow when securities houses report their earnings, lower than expected because of weak stock market turnover. Much more important to the economy at large will be the banks' interim results, due late next month .These will confirm that weak demand for loans, as well as banks' own caution over new lending, is a constraint on economic growth, points out Mr Robert Burghart, strategist at Smith New Court Securities.

Second, there is the continuing risk of deflation. Manufacturers and service companies alike have taken an axe to labour costs. They have frozen recruitment, failed to replace retired staff and cut annual bonuses, which can represent up to a third of total renumeration. This has been good for profits. because labour costs have fallen faster than wholesale prices over the past six months. But labour cost cuts have depressed consumer demand and helped to drag down prices further, so hitting consumer-related companies' profits and encouraging further cost cuts, the classic deflationary spiral.

Consumers may, however, be cheered by recent income tax cuts, so popular fears of deflation are exaggerated, argues Mr Jason James, equity strategist at James Capel Pacific.

Yet corporate cost-cutting still has further to go, as shown by the fact that manufacturing industry's operating margins, at 2.6 per cent of turnover last year, are still well below the 3.8 per cent average for the previous two decades. If tax cuts can hold off deflation, those cost reductions should feed through into the much more robust corporate profits rise that most forecasters expect next year.

Digital encouraged by smaller quarterly loss

By Louise Kehoe in San Francisco

Digital Equipment reported smaller than expected losses for its first fiscal quarter as revenues grew modestly. The results raised hopes that the computer manufacturer would achieve its goal of returning to profitability by mid-1995 after four years of heavy losses.

Digital reported a net loss of $131m, or 98 cents per share, compared with a net loss of $154m, or $1.14 per share, for the same period last year. Total operating revenues for the quarter were $3.12bn, up nearly 4 per cent from $3.01bn from the same stage a year ago. A one-off gain of about $65m from a change in accounting methods, was partially offset by one-off losses related to several small divestments, the company said.

Analysts had been anticipating a loss of around $1.31 per share, so Digital's first-quarter performance was viewed favourably, and the company's share price gained $2¼ at $31⅞ at mid-session. A small sequential increase in gross profit margins also raised confidence in Digital's ability to return to profitability by the end of its fiscal year.

"While we are not satisfied with any loss, the current quarter's results contain many encouraging signs that give us confidence in our current plan to move the company towards its objective of sustained profitability," said Mr Robert Palmer, president and chief executive.

Revenues from product sales were up 6 per cent at $1.6bn while service revenues were virtually flat at $1.47bn. "This is the first time in six years that we have seen three consecutive quarters of order growth," said Mr Palmer. Sales of computers based on Digital's Alpha microprocessor more than doubled over the year before and now represent 19 per cent of product revenues, said Mr Palmer. Digital is counting on strong sales of Alpha systems to replace revenues from its older proprietary minicomputers.

Digital's personal computer sales also grew strongly, nearly doubling to about 22 per cent of product revenues, or about $363m. Digital continued to cut costs in the first quarter, with sales and general expenses down 4 per cent at $836m, partly as a result of shifting sales to indirect channels, via third parties.

The company eliminated about 4,000 jobs during the quarter. Its workforce now stands at approximately 73,800, down from 115,000 two years ago. The company said that it is on track to achieve a 20,000 reduction by the end of the fiscal year, but noted that job cuts are behind schedule "in two major European countries" which executives declined to identify, due to labour union disputes.

Compaq results, Page 20

Booker expands in salmon

By Roderick Oram in London

Booker, the British food group, will become the world's largest farmer of Atlantic salmon with its $122.1m agreed bid for Marine Harvest International, a US company 27 per cent owned by Hanson, the UK group.

The deal will more than quadruple Booker's salmon interests which will now account for about one-tenth of group profits. Booker, with about 7 per cent of world production, will leap ahead of Norsk Hydro and other Norwegian producers with whom it is engaged in a price war.

Booker's share of Scottish production will rise from about 9 per cent to just under 25 per cent, Mr Charles Bowen, chief executive, said. A counter-bid from Norway or Asia could not be ruled out but was unlikely, he said. No other bidders had been flushed out by Marine Harvest's announcement several weeks ago that it was discussing an offer at about $10.50 a share. Booker is offering $10.20 for the shares.

Booker has 34 per cent of Marine's equity in the net, 27 per cent from Hanson and less than 8 per cent from the family of Mr David Clarke, chief executive of Hanson Industries.

Most of the assets Booker is buying were in the salmon farming business Unilever sold to Marine in October 1992. Hanson is retaining Marine's shrimp business with a net asset value of $25.2m which it will sell or liquidate. Booker will reimburse Hanson for losses on the sale over $8.5m. Booker is paying for Marine from existing credit lines and the placement of 10.5m new shares, equal to 4.9 per cent of its existing equity.

Marine gives Booker production in Chile, considered the world's best and cheapest fish farming location, and access to US and Japanese markets. Its Scottish farming is aimed at Europe.

Marine's salmon operations made operating profits of $19.9m on sales of $89.3m in the year to September 1993.

Lex, Page 16; Details, Page 26

BAe offered GEC talks on merging defence interests

By Robert Peston in London

British Aerospace has told GEC that it would be prepared to resume talks on merging the two companies' defence interests, which were abandoned a year ago, if GEC does not attempt to stymie its £497m ($785m) bid for VSEL, the shipbuilding company.

According to businessmen close to both companies, the offer was made at a secret meeting on Tuesday between Mr Dick Evans, BAe's chief executive, and Lord Weinstock, GEC's managing director. It is understood that GEC was unimpressed and there was no agreement between the two companies. "It's a Mandy Rice-Davies situation," said a financier close to GEC. "They would say that, wouldn't they." He was doubtful that the offer of defence merger talks would have been carried through.

The meeting was held at BAe's request, following reports that GEC was considering both a bid for VSEL and for BAe itself.

Mr Bob Bauman, BAe's chairman, said yesterday that he had a policy of "never commenting" on confidential meetings.

Last week, BAe made a recommended takeover offer for VSEL. BAe said last night that it remained "totally committed" to this bid. GEC will decide in the coming week whether to make a cash offer for VSEL.

A hostile takeover bid by GEC for BAe, which Lord Weinstock was considering last week, has become extremely remote, after the rise in BAe's share price from 454p a week ago to 478p yesterday. A financier with a close knowledge of the company said: "GEC has decided not to go for a hostile bid." GEC will make no statement on the issue, because Takeover Panel rules would prevent it from making a hostile bid for 12 months following any such statement.

GEC cannot decide whether to go for VSEL until it has reviewed confidential information on the shipbuilder's finances, which was given to Lazard Brothers, GEC's merchant bank, earlier this week.

Lord Weinstock's main ambition is to engineer the merger of GEC's and BAe's defence interests, to create a super-contractor to rival any defence company.

"This is the longest game of corporate cat and mouse that I can remember," said a financier.

If BAe were to buy VSEL, its balance sheet would be strengthened and that might make it more difficult for GEC to prize out BAe's defence interests.

On the other hand, GEC is concerned that any bid by it for VSEL could be frustrated by a reference to the Monopolies and Mergers Commission, as GEC already owns shipyards.

GEC may decide to give BAe a free run and then make a very low bid for the £2.5bn UK government contract to build the next generation of five Trafalgar class nuclear-submarines, which VSEL is hoping to win.

Lex, Page 16; DTI warns off Brussels, Page 24

INTERNATIONAL COMPANIES AND FINANCE

Accor expects deficit in first half

By John Ridding in Paris

Accor, the French hotels and travel service group, said yesterday that it would report a loss for the first half of the year, compared with a net profit of FFr109m ($20.60m) in the same period in 1993.

The company declined to comment on the size of the loss ahead of an official announcement next week. It said, however, the deficit reflected the lack of exceptional gains on the disposal of assets which have boosted profits in previous years.

Accor said the first-half performance would be affected by the seasonal nature of the hotels business. However, the economic recovery in some of its principal European markets was expected to have a positive impact in the second half of the year.

Industry analysts said they were not surprised by the prospect of the loss. "Since it became apparent that there would be no exceptional gains, the announcement is not a shock," said Mr Hervé Guez, an analyst at Smith New Court.

Another hotels analyst said a poor operating result would fuel concerns about the group's recovery prospects.

The forecast loss is the latest step in a results decline at the hotels group which has seen profits fall from FFr802m in 1992.

The company has been hit by the impact of recession in its principal markets and has little exposure to the UK, where recovery has come earlier than on the continent.

Profits have also been hit by a heavy debt burden which totalled about FFr13.3bn at the end of last year, excluding the debts of Motel 6, the US chain in which Accor has a controlling 39.5 per cent stake.

The high level of debts, partly due to the company's 1991 acquisition of Wagons-Lits of Belgium, have prompted a programme of asset disposals.

The group recently suffered another setback, losing out to Forte of the UK in a battle for control of the Méridien chain of luxury hotels owned by Air France.

It has also been at odds with Suez, its principal shareholder, over the conditions concerning an increase in the industrial and financial group's shareholding.

Shake-up puts Neste in black

By Hugh Carnegy in Stockholm

Neste, the state-owned Finnish oil and petrochemicals group, yesterday confirmed a strong return to profitability this year with figures showing a swing to a pre-tax profit of FM879m ($190m) in the first eight months of the year from a loss of FM1.3bn in the same period last year.

Sales were down sharply at FM32.96bn from FM42.8bn, due in part to lower crude oil prices. However, operating profit jumped to FM1.5bn from FM454m, and Neste said it expected profitability to be sustained at the same levels during the rest of the year.

The turnround – and much of the fall in sales – was attributed to the effects of a broad restructuring programme designed to return Neste to profit, and prepare the 97-per cent state-owned group for a partial privatisation.

Part of the fall in sales was blamed on the merger in spring of Neste's petrochemicals and polyolefins operations in a 50-50 joint venture with Norway's Statoil. The merged company is called Borealis. Neste has also reduced operations in its main trading division, which saw sales in the first eight months fall to FM17bn from FM24bn. Neste says it will concentrate its activities on oil and energy.

Alcatel, Telefónica break ties

By John Ridding

Alcatel, the French telecommunications company, yesterday announced it had bought a 13.2 per cent stake in Alcatel Standard Eléctrica, its Spanish subsidiary, from Telefónica, the Spanish telecommunications operator.

The purchase of the shares, for Pta22.23bn ($178.3m), satisfies a recommendation by the European Commission that the Spanish operator eliminate shareholding ties with its transmission equipment suppliers.

The recommendation, made in 1990, followed the acquisition by Alcatel of Telettra of Italy. The acquisition gave Alcatel, through its Spanish subsidiary and the Spanish operations of Telettra, about 80 per cent of the country's transmission market.

Sir Leon Brittan, then competition commissioner, had expressed concern about Alcatel's dominance of the Spanish transmission market. His recommendation that equity ties with Telefónica should be broken was aimed at preventing distortion of the market.

Mr Pierre Suard, chairman of Alcatel, and Mr Cándido Velázquez Gaztelu, his counterpart at Telefónica, said the break in the equity relationship would not affect the co-operation between the two groups.

As a result of the deal, Alcatel will now hold 99.62 per cent of Alcatel Standard Eléctrica, with the balance held by Spanish shareholders.

Yesterday's announcement coincided with a statement by Alcatel on the re-organisation of its mobile communications and network systems operations. It said the move was aimed at increasing efficiency and the speed of reaction to clients' demands.

As part of the re-organisation, Mr Pierre Guichet, chairman of Alcatel CIT, the telecoms equipment division, will become president of Alcatel Mobile Communications. Alcatel Network Systems, which covers the development and manufacture of telecoms infrastructure equipment, will be organised into five product lines.

It will be headed by Mr Jozef Cornu, president of ANS.

Profits trebled at Metsä-Serla

By Hugh Carnegy

Metsä-Serla, the Finnish forestry group, said yesterday its profits after financial items had more than trebled in the first eight months of the year, to FM382m ($82.7m) from FM124m in spite of flat sales and a drop in operating profits.

The rise in earnings stemmed from a steep fall in net financial expenses, to FM153m from FM504m, as interest charges tumbled and the group made a net exchange rate gain of FM68m.

However, Metsä said an upswing in the forestry industry that began at the beginning of the year had gathered strength during the summer. It said demand and prices were rising and that profitability would be stronger in the last four months of the year.

It forecast full-year profits at least double 1993's FM303m.

In the first eight months, sales reached FM6bn, virtually unchanged from a year ago. An increase in expenses and losses from associated companies pushed down operating profit, to FM535m from FM628m.

In the three main business areas – encompassing paper, paperboard, corrugated board, tissue and chemicals – both sales and operating profits were down. Sales of sawn goods and pulp, however, rose to FM1.55bn from FM1.32bn, while operating profit rose to FM282m from FM137m.

Metsä said it would spend more than FM700m on new investments over the year.

It has a 28 per cent stake in a 500,000 tonnes-per-annum pulp mill being built at Rauma in Finland, and is expanding a sawmill at Kyrö.

The group said it had taken an extraordinary charge of FM44m in the eight-month accounts to cover its share of a fine for price fixing imposed by the European Union on European board manufacturers.

Matsushita moves to keep control of MCA

By Michiyo Nakamoto in Tokyo and Alice Rawsthorn in London

Matsushita, the Japanese electronics group, yesterday affirmed its determination to retain control of MCA, its Los Angeles-based entertainment business, in spite of demands from MCA's senior management to take control of the company.

Mr Yoichi Morishita, chairman of Matsushita, held five hours of talks in San Francisco on Tuesday with Mr Lew Wasserman, veteran MCA chairman, and Mr Sidney Sheinberg, president.

The US duo, the longest established management team in Hollywood, tabled a request for managerial control. Mr Morishita rejected the request by telling them: "As long as Matsushita holds 100 per cent of the shares we can not cede control."

The San Francisco showdown followed months of strained relations between MCA and its Japanese parent company. Mr Wasserman and Mr Sheinberg have criticised Matsushita for allegedly blocking their plans to expand MCA's entertainment interests at the same aggressive pace as rivals such as Time Warner and Viacom.

Tuesday's meeting followed a few days after the news that Mr David Geffen, the billionaire music mogul who founded MCA's Geffen Record subsidiary, and Mr Steven Spielberg, the director of its latest box office hits, *Jurassic Park* and *Schindler's List*, were joining forces with Mr Jeffrey Katzenberg, former head of Walt Disney's film studios, to form an entertainment company.

The potential loss of Mr Geffen and Mr Spielberg has intensified the pressure on MCA and Matsushita to resolve the US company's future.

However, some US entertainment industry analysts speculated that Mr Wasserman, 81, and Mr Sheinberg, 59, may have over-played their hand by giving Matsushita the chance to replace them with a younger management team.

KOP seeks to strengthen capital base by FM3bn

By Christopher Brown-Humes in Helsinki

Kansallis-Osake-Pankki, Finland's leading commercial bank, said yesterday it wanted to strengthen its capital base by FM3bn ($648.4m). The move is a final attempt to shake off the legacy of the country's banking sector crisis, which has brought the bank four years of losses.

It intends to launch a FM2bn share issue – its third big equity offering in the past two years – and raise a further FM1bn in capital gains from asset sales.

Part of the aim is to support an expected growth in lending as the Finnish economy recovers.

However, the issue will also restore the bank's distributable equity and allow it to pay interest on FM1.75bn of preferred capital certificates held by the state. Otherwise, the government has the option to convert the certificates into shares, increasing its stake in the bank from 15 to 36 per cent.

The share issue, at FM6.40 a share, will lift the bank's capital adequacy ratio above 11 per cent from 9.2 per cent. It is being informally guaranteed by Repola and Pohjola, KOP's leading shareholders who have said they will subscribe for at least FM1bn of the offer.

"This share issue is the culmination of our capitalisation programme," said Mr Pertti Voutilainen, KOP chief executive. He said there would also be a further effort to squeeze costs to cut annual operating expenses by FM300m.

The capital-raising programme follows a worsening of the bank's performance in the first eight months of the year, when operating losses rose to FM1.3bn from FM896m in the same 1993 period. Cumulative losses over the 1991-1994 period exceed FM9bn.

The bank said its figures had deteriorated in the second four months because of losses linked to the construction group Puolimatka.

A charge of FM800m against Puolimatka was the main item in a total bad debt charge of FM1.67bn, compared with FM1.96bn in the same 1993 period. However, this year's figure was struck after full utilisation of a FM900m provision in the 1993 accounts for future write-offs.

The bank's figures were also hit by FM160m in bond losses, compared with gains of FM340m in the same 1993 period. This lowered net income from financial operations by 7 per cent to FM1.48bn.

KOP says expected net operating losses of between FM400m and FM500m in the final four months should largely be offset by realised and unrealised investment gains. It still hopes to make a profit next year, although it expects to remain in the red for the first few months.

Rhône-Poulenc to sell division

By David Buchan in Paris

Rhône-Poulenc, the French chemicals group, plans to sell its acetics business as part of a strategy to get out of making intermediate and basic chemicals.

Rhône-Poulenc management has convened a meeting for October 27 at the works council at the group's Pardies acetics plant in south-west France to explain the move. An announcement will be made later that day.

Rhône-Poulenc gave no further details, except to confirm the impending sale was in line with the intention of Mr Jean-René Fourtou, president, to sell $1bn-$1.5bn in assets over the next 18 months. These would be chiefly in intermediate or basic chemicals for which his group had no in-house use or where the scale of its activity was dwarfed by that of others.

Acetics form part of Rhône-Poulenc's organic and inorganic intermediates division, which last year recorded sales of FFr14.1bn ($266m). It is estimated that acetics accounted for just over FFr2bn of this.

Other main producers of acetics are British Petroleum and Hoechst, but according to one report in Paris, Union Carbide of the US might be interested in buying the unit from Rhône-Poulenc.

Acquisitions spur Smiths by 12%

By Paul Taylor in London

Smiths Industries yesterday reported better than expected full-year profits, buoyed by acquisitions and a particularly strong performance by its medical systems business.

Pre-tax profits for the year to July 31 rose 12 per cent to £117.2m ($185.17m) from £104.6m. The shares gained 7p to close at 447p.

Sales advanced 4.6 per cent to £759.3m, including a £16.9m initial contribution from acquisitions such as Deltec, a US medical equipment manufacturer, which was purchased for $150m in June.

The group spent £129.4m on acquisitions during the year.

Spending on research and development reached a new peak of £122m from £118m last year, of which Smiths funded £44m and customers the rest.

Operating profits of £113.3m, up from £103.8m last year, included a £2.5m contribution from acquisitions. For the second year running, medical systems contributed more to group results than the aerospace division which saw trading profits fall 4 per cent to £38.9m on sales of £374.2m, down from £392.8m.

Earnings per share grew by 11.3 per cent to 26.6p, from 23.9p last year, and a final dividend of 8.4p, from 7.55p, is proposed, making a total of 13p, up from 11.85p.

Lex, Page 16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Volume grows at US telecom groups

By Tony Jackson in New York

Third-quarter results from several US telecommunications companies *showed continued fast growth* in the volume of traffic, but also bore the scars of increased competition.

Bell Atlantic reported a 58 per cent rise in the number of its cellular phone customers and a 9 per cent *increase* in minutes of use on its local networks.

However, the Philadelphia-based company suffered a loss of $1.67bn in the quarter after previously announced extraordinary charges of $2.15bn, incurred in what Mr Raymond Smith, *chairman*, called "an aggressive, multi-year campaign to respond to competition in our traditional markets".

Underlying net earnings for the quarter were down 29 per cent at $276m.

Pacific Telesis announced a 6.7 per cent rise in minutes of use, *but flat revenues* and a 2 per cent rise in net earnings for the quarter, to $314m.

The San Francisco-based company warned that it would be difficult to achieve earnings growth next year, as a result of "regulatory rulings, increased competition and strategic initiatives".

Mr Phil Quigley, chairman, said "a price cap on call *charges which is being intro*duced next year as part of California's new regulatory framework would cut revenues by around $196m, with an initial $45m impact on this year's results".

In addition, the company will drop its local toll charges by 40 per cent from the start of next year, when new competitors will be allowed into its market.

GTE, the biggest US local phone company, said its cellular customers rose by 48 per cent and minutes of use in its local networks by 9.6 per cent.

These factors "more than off*set lower, more competitive* telephone pricing," the company said.

Operating profits were up 8 per cent at a record $1.25bn for the quarter, while earnings per share before special items were also up 8 per cent at 64 cents.

MCI Communications, the second largest US long-distance telephone company, in which the UK telecommunications company BT has a 20 *per cent stake, said its third*-quarter earnings showed an underlying increase of 15 per cent to $220m, or 38 cents a share, on sales up 12 per cent at $3.41bn.

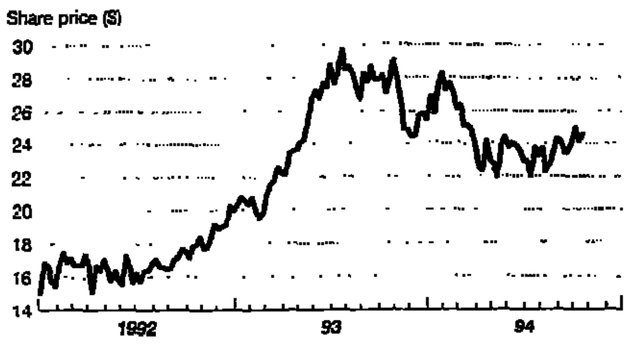
Traffic grew 10.2 per cent over the year, while international business was up more *than 20 per cent.*

MCI also reported strong growth in the use of toll-free 800 numbers in the US. Sales in the 800 business market grew almost 20 per cent, while MCI's 1-800-COLLECT consumer service, introduced *last year*, had doubled its number of calls since the start of the year.

MCI's newest 800 product, an international directory enquiries service launched earlier this month under the name *of 1-800-CALL-INFO, came* under fire yesterday from AT&T, MCI's bigger rival.

In a formal complaint to the US Federal Communications Commission, *AT&T said the* service was illegal because it charged customers for a call to an 800 number. MCI denied the service was illegal.

MCI Communications



Source: FT Graphite

Advance of 16% at US healthcare group

By Richard Tomkins in New York

Johnson & Johnson, the US healthcare group that has recently agreed to buy East*man* Kodak's diagnostic products division and the Neutrogena skin care company, saw a 16 per cent increase in net profits in the third quarter in spite of a big increase in its tax charge.

The profits growth was led by the group's pharmaceuticals division, which increased sales by 21 per cent in the US and internationally because of strong performances from new drugs, such as Risperdal, an *anti-psychotic medication for* schizophrenia. The division had sales of $1.3bn.

The consumer division saw a 22 per cent increase in interna*tional sales, mainly because of* a strong performance from its operations in Brazil where the local economy is recovering. Domestic growth was softer at 5 per cent, leaving total sales 13 per cent ahead at $1.4bn.

The professional division, driven by rapid international growth, increased sales by 12 per cent to $1.3bn.

Overall, group sales rose by 15 per cent to $4.04bn, of which 2 percentage points were attributable to the recent weakness of the dollar against other currencies.

International sales advanced by 22 per cent – much faster than domestic sales, which rose by 9 per cent.

Pre-tax profits rose by 22.5 per cent, but after the increase *in the tax charge*, earnings per share were 17 per cent ahead at 82 cents.

Compaq impresses with 88% jump in third term

By Louise Kehoe in San Francisco

Compaq Computer lived up to high expectations with an 88 per cent jump in net income for the third quarter, achieved on *a sales increase* of 63 per cent.

Net income for the quarter was $201m, up from $107m in the third quarter of 1993. Earnings per share rose 79 per cent to 75 cents, compared with 42 cents in the same period *last* year. Revenues increased to *$2.84bn from $1.75bn.*

Sales growth was strong worldwide, the company said. North American sales grew by 57 per cent, Europe by 50 per cent and Japan, Latin America and Asia-Pacific sales grew at a combined rate of 122 per cent.

More than half of Compaq's sales are in North America.

During the quarter, Compaq continued its expansion by beginning production at new facilities in Jaguarina, *Brazil*, and Shenzhen, China. This *week the company announced* plans to establish a sales and marketing subsidiary in South Africa.

Third-quarter gross margin declined to 23 per cent from 26.5 per cent in the second quarter, but the drop was anticipated due to aggressive *price cuts. Mr Eckhard Pfeiffer*, president and chief executive, said he expected to maintain this level of profit margins for the remainder of the year and 1995.

He has set a target for Compaq to be the worldwide PC industry leader by 1996. By most measures, however, this goal has already been achieved with Compaq outselling its largest competitors, IBM and Apple Computer, for the year *to date.*

Mr Gian Carlo Bison, senior vice-president for North American marketing, declined to comment on a legal dispute between Intel and Advanced Micro Devices, Compaq's two suppliers of *microprocessor* chips, that threatens to inter*rupt* AMD's production. He said, however, that Compaq was talking to "a variety of potential suppliers" of microprocessors.

For the year to date, net income rose to $624m, or $3.11, *against* $311m, or $1.22. Revenues advanced to $7.6bn from $5bn in the first nine months of 1993.

Lotus places blame for 60% decline on European operations

By Louise Kehoe in San Francisco

Lotus Development has reported a sharp drop in earnings for the third quarter. The *US personal computer software* company blamed problems in its European operations for the reversal.

Net income before non-recurring charges was $7.3m, or 15 cents a share, 60 per cent down on $18.3m, or 41 cents, in the same period last year. Revenue for the quarter was $235.2m, a 2 per cent decline from $240.1m in last year's third quarter.

Lotus took charges of $67.9m for the acquisition of Soft-Switch and Edge Research, two software development groups, during the quarter. The company also took a $9m charge for restructuring its European operations. The net loss for the quarter, after charges, was $66.4m, or $1.39 a share.

"Third-quarter results proved disappointing, primarily due to poor performance of our European operations," said Mr *Jim Manzi, president* and chief executive officer. He also cited slower than expected sales through a volume purchase programme for corporate customers.

The problems in Europe *stemmed from slow demand* for Lotus' office PC applications programs and a management shuffle, said Mr Edwin Gillis, chief financial officer. During the period Lotus appointed a new manager of its *European operations and cut* about 90 jobs, he added. New products, launched in September, were expected to boost demand, he said.

Revenues from communications programs, used for elec*tronic messaging, now account* for about one-third of revenues and sales of these products grew 72 per cent, year on year.

Net losses, after charges, for the year to date were $35.3m, or 76 cents a share, compared with *net income* after charges of $25.9m, or 59 cents, in the first nine months of 1993.

WMX moves back to black with $212.8m

By Laurie Morse in Chicago

WMX Technologies, the international waste haulier *and processor, reported third*-quarter income of $212.8m, or 44 cents a share, up from a loss of $127.1m, or 26 cents, in the same 1993 quarter.

The 1993 third-quarter loss was the result of a $285m *charge for a restructuring* at WMX's struggling Chemical Waste Management subsidiary.

WMX's third-quarter sales were $2.6bn, up from $2.3bn a *year earlier.*

In addition to Chemical Waste, WMX is the majority owner of WMX International, Rust International and Wheelabrator Technologies. Chemical Waste this week reported that *it earned $15m, or 7 cents* a share, in the third quarter, recovering from last year's third-quarter loss of $359.9m, or $1.72. Excluding special charges, Chemical Waste earned 4 cents a share in the 1993 *third quarter.*

WMX said Chemical Waste still suffered from low volumes in its core hazardous waste businesses. In June, state regulators sharply restricted the use of the company's Barnwell, South Carolina, low-level radioactive waste processing facilities, dampening earnings prospects.

WMX last week agreed to buy back the 45m shares, or about 21 per cent, of Chemical Waste *that it does not already* own for $8.85 a share, substantially above an initial offer of $7.86 made in July.

For the first nine months of the year, WMX earned $578.6m, or $1.20, on sales of $7.4bn. That is up from $289.8m, or 60 cents, on sales of $6.7bn in the same 1993 period.

Mr Dean Buntrock, WMX chairman, said that revenue growth in Waste Management's North American operations helped offset weakness at Chemical Waste and in some international sectors. "I *am pleased to say we are* continuing the progress we reported earlier this year and our results are in line with our expectations at this point in the year," he said.

Boost for US airline shares as AMR profits beat forecasts

By Richard Tomkins

Shares in US airlines jumped sharply yesterday after AMR, the parent company of Ameri*can Airlines, the first US* carrier to report its quarterly results this season, produced profits far in excess of analysts' expectations.

AMR said net earnings after preferred stock dividends shot up to $188m *in the quarter to* September from $102m last time, and fully-diluted earnings per share rose from $1.34 to $2.27. It was the airline's best result in five years.

Analysts had been predicting earnings per share of $1.75 to $2, and AMR's shares rose $2⅝ to $54½. UAL shares were ahead $4⅛ to $91 and Delta $1½ at $47⅝.

AMR said improved economic conditions were one rea*son for the increase*, but the main factor had been a small increase in revenues combined with a big decrease in costs. AMR's passenger division flew slightly more passengers than in the same period last year, but reduced capacity by 5 per cent.

American Airlines has been cutting costs by dropping unprofitable routes, reducing its *fleet and shedding jobs*. It said operating expenses declined by 2.2 per cent in the quarter to $3.74bn, partly because jet fuel costs were 3.2 per cent lower.

One drawback to the profits improvement is that it will make it harder for AMR to per*suade* its labour unions of the need to accept higher productivity and pay cuts. Mr Robert Crandall, chairman, said: "In light of our earnings, some *may ask if the company still* needs to change. The answer is that it clearly does."

However, he also lavished uncharacteristic praise on the airline's employees, saying the results were "a commentary on *the hard work and commit*ment of our people, who are offering our customers first-rate service".

Monsanto hit by higher costs

By Tony Jackson

A rise of almost 20 per cent in raw material costs contributed *to a 14 per cent drop in operat*ing income at Monsanto, the US chemicals group, in the third quarter.

Other factors were lower margins in Roundup herbicide, lower bulk prices for the artificial sweetener aspartame (NutraSweet) and the absence of income from discontinued businesses. However, the company was on its way to "an outstanding 1994", Mr Richard Mahoney, chairman, said.

Worldwide sales of Roundup were well ahead in the quarter, though a tilt in volume *towards lower-margin markets* as a result of weather conditions had reduced profits. Operating profits in pharmaceuticals were maintained on a 4 per cent rise in sales.

Sales of the controversial substance BST (bovine somatotropin), used to increase milk yields, were well ahead of expectations, the company said. Introduced to the US market early this year, Posilac – Monsanto's version of BST – had got off to "a very good start", a spokesman said.

Net earnings for the quarter, *helped by a $21m tax settle*ment, were up 22 per cent at $116m, or 99 cents a share.

● Full-year net earnings from Rohm and Haas, the speciality chemicals producer, should beat their previous record of $230m set in 1988, Mr Lawrence Wilson, chairman, said yesterday. Net earnings in the third quarter were $55m, compared with a loss of $23m, bringing the nine-month total to $211m.

BankAmerica meets expectations

By Patrick Harverson in New York

BankAmerica, the second largest bank in the US, yesterday reported a 13 per cent improvement in third-quarter earnings to $547m, or $1.36 a *share.*

The results, boosted by the contribution of the Chicago-based Continental Bank, which BankAmerica acquired earlier *this year for $1.9bn*, were in line with analysts' estimates.

BankAmerica said the addition of Continental's businesses had given it improved access to US wholesale customers, especially in the Midwest, where the bank has set up a new subsidiary – Bank of America Illinois – and relocated its corporate banking operation.

Net interest income at the San Francisco-based bank rose *to $1.9bn in the latest quarter* from $1.88bn a year ago.

However, without Continental's $40m contribution, net interest income would have *fallen slightly* in the quarter as an increase in loans failed to offset a fall in the bank's net interest margin from 4.72 per cent to 4.51 per cent.

Credit quality improved in the period, with BankAmerica having to set aside only $110m as a provision for loan losses in *the quarter, compared with* $178m a year earlier.

Non-interest income, meanwhile, increased $68m to just under $1.1bn, with just over *half of the improvement* derived from Continental.

Growth in this area was primarily due to sales of equity interests in Burns-Fry Holdings, and a Malaysian branch of the bank.

BankAmerica shares eased $¼ to $44¾ on the New York Stock Exchange in early trading yesterday.

BT in joint transatlantic video service

By Raymond Snoddy

British Telecom has combined with four North American organisations to operate the first commercial transatlantic fibre-optic video service for broadcasters and production houses.

*The new company, Atlantic*Vision, will operate its service, using the recently completed cable, from early next year. A service is already available using satellite.

When fully operational *AtlanticVision will compete* with satellite transmission of pictures across the Atlantic by professional users.

The Vyvx, a subsidiary of WilTel, the US telecommunications company, and *BT have entered an agreement* with Teleglobe Canada, the international telecommunications group, to provide the television transmission links between the UK and the US.

Links between the UK and Canada will be provided under a separate agreement between Stentor, an alliance of Canada's leading telephone companies, BT and Teleglobe.

Charges will be $600 for 15 minutes and the new organisation claims that the undersea network will offer "the fastest and most *cost-effective* secure link between North America and northern and eastern Europe".

Amgen posts strong growth in sales

By Tony Jackson

Amgen, the California-based biotechnology company, reported strong sales growth in its two main products in the third quarter, leading to a 23 per cent rise in underlying earnings to $114m.

Sales of Epogen, for kidney failure, rose 25 per cent, and of Neupogen, used to boost the immune system, 15 per cent.

Group sales were 20 per cent ahead at $426m. Amgen said *sales of Neupogen in the US* were up 11 per cent at $215m, and international sales up 29 per cent at $55m. Epogen sales totalled $187m.

Earnings per share for the quarter were 82 cents, compared with an adjusted 65 cents last year.

Mr Gordon Binder, chairman, said: "I am confident that *the strong patient benefits of* Epogen and Neupogen will enable us to achieve double-digit sales and earnings growth in 1995 and that these breakthrough products, as well as others being explored *through in-house discovery* and external collaboration, will continue to fuel growth in later years."

Amgen *said* that *during the* quarter it made a preliminary submission to the US authorities for a new drug, neurotrophin-3, developed in partnership with Regeneron Pharmaceuticals.

The drug treats peripheral neuropathes, found in patients undergoing cancer therapy and in diabetics.

Arthur Andersen parent turns in record revenue

By Jim Kelly

Arthur Andersen Worldwide Organisation, the global professional services firm, yesterday announced a 12 per cent rise in revenues to a record $6.7bn.

Mr Lawrence Weinbach, managing partner and chief executive, said growth had been very *strong in the Asia* and Pacific region, at 50 per cent, and in the Americas, at 14 per cent.

"During the next five years the organisation will continue to invest heavily in worldwide training and expect to continue an annual investment of over six cents of *each revenue dol*lar," he said.

Andersen Consulting, the consultancy unit, saw revenue rise by 14 per cent to $3.2bn and Arthur Andersen, the accounting services unit, lifted revenues by 10 per cent to $3.5bn.

Genentech ahead 116% at $33.6m

By Tony Jackson in New York

Genentech, the US bio-technology company, bucked the trend of bad news from its sector with a 116 per cent rise in net income in the third quarter to $33.6m, or 28 cents a share.

The company attributed much of the growth to its latest product, Pulmozyne, which treats cystic fibrosis.

On Monday, shares in two smaller biotech companies, Gensia Pharmaceuticals and *ProCyte*, more than halved on the news that new products had failed in clinical trials. However, Mr Kirk Raab, Genentech chairman, said: "Important clinical development progress during the quar*ter should* help us maintain our rate of growth."

The company said sales of Pulmozyne, in its third quarter on the market, had been $21m, compared with $18.7m in the second quarter. The drug was launched in France and Germany in the quarter, and sells in 18 countries.

Sales of Activase, used to dissolve blood clots, were $65.1m, against $63.5m. However, sales of Genentech's two human *growth hormone products*, Protropin and Nutropin, were down to $54.6m from $55.4m.

Group revenues in the quarter were $193.8m, an increase of 17 per cent. Research and development expenditure was $73.2m, against $72.3m, or 38 per cent of revenue.

UBS rejects Ebner board proposal

By Ian Rodger in Zurich

Union Bank of Switzerland yesterday rejected Mr Martin Ebner's proposal that a director be appointed specifically to represent the bank's registered shareholders.

Pursuing its proxy battle with the maverick Zurich banker, the bank discounted Mr Ebner's warning that the bank could come under the control of drug barons or other undesirable groups once voting restrictions had been removed from its shares.

The UBS board last month proposed splitting its registered shares and bearer shares into a new class of bearer shares with equal voting power and no voting restrictions. An extraordinary general meeting will be held on November 22 to vote on the proposal.

The board made clear that its purpose was to remove the disproportionate voting power held by the registered shares. These shares have 51.1 per cent of all votes and can be voted only by Swiss nationals, but they represent only 17.3 per cent of the bank's capital.

Mr Ebner is chairman of BK Vision, an investment fund that is UBS's largest shareholder with an 18 per cent holding in the registered shares. He has said he is trying to rally the support of other shareholders to vote for changes in the bank's strategy at the annual meeting next spring.

Mr Nikolaus Senn, chairman, said the nomination of a board member to represent the registered shareholders would be superfluous if, as he expected, shareholders approved the board's motion.

He said a Swiss banking law coming into effect at the beginning of the year would provide greater safeguards against undesirable takeovers than the registered shares.

Mr Robert Studer, UBS chief executive, explained the bank's rejection of Mr Ebner's call for it to focus more on investment and private banking. He said the bank's strategy of underpinning its wholesale financial activities with a strong Swiss retail base ensured a more stable earnings performance and a higher share rating than those of leading US and UK banks.

Mr Studer dismissed calls for compensation to registered shareholders for the loss in value of their shares because it could only come unfairly at the expense of the bearer shareholders.

Analysts advised against buying the registered shares in recent months because of the abnormal premium they acquired.

"Those who bought despite this advice did so at their own risk," Mr Studer said.

Nikolaus Senn: new law will provide greater safeguards

Record sales help Cummins to $61.9m

By Laurie Morse in Chicago

Cummins, the Indiana-based diesel engine maker, yesterday said third-quarter income rose to $61.9m, or $1.48 a share, from last year's $40.7m, or $1.11.

Sales for the quarter were a record $1.2bn, up from $988.3m in last year's third quarter.

Strong sales in US medium-duty and heavy-duty truck markets lifted results. The company said it expected North American heavy-duty truck production to reach a record 205,000 units in 1994, up 20 per cent over 1993.

Cummins has 34 per cent of that market, and 35 per cent of the North American medium-duty truck market.

Its power generation group recorded sales of $249m in the quarter.

The company recently acquired Power Group International, based in the UK, whose businesses are less cyclical than those of Cummins' other business segments.

For the first nine months earnings rose to $182.7m, or $4.43, on sales of $3.5bn, against $130.0m, or $3.54, on sales of $3.1bn last time.

Riyad Bank falls 15% to SR559.1m

Riyad Bank, Saudi Arabia's second largest bank, saw net profits drop for the first nine months of 1994, Reuter reports from Manama.

Net profits fell 15 per cent to SR559.1m ($149m) from SR657.7m in the same period in 1993.

Shareholders' equity rose to SR7.47bn from SR6.97bn. Customer deposits fell to SR26.31bn from SR26.83bn. Total assets also dropped to SR52.15bn from SR54.13bn.

Higher prices help Gengold to lift profit by 42.8% to R127m

By Mark Suzman in Johannesburg

Gengold, the gold division of South African mining house Gencor, shrugged off the labour unrest that had dented its previous quarter's figures and reported a sharp 42.8 per cent rise in after-tax profit for the three months to September, up to R126.8m ($36m) from a disappointing R88.8m.

The company's mines benefited from a 4 per cent rise in the average gold price received and improved overall production. These were more than sufficient to offset a slight decline in yield.

Overall gold production rose by 3.2 per cent to 15,731kg, up from 15,242kg, while the average gold price received rose to R44,614 a kg from R42,744/kg. Total tonnage milled was 2.7m tonnes, up from 2.6m tonnes.

Mr Tom Dale, deputy managing director of Gencor's gold division, said the company had benefited from the end of election-related unrest in the June quarter. However, he said working costs were up due to increased mining activity and a higher wage bill.

Of the group's bigger mines, Beatrix performed best, increasing after-tax income to R31.3m from R20.7m in spite of a slight drop in yield to 6.1 grammes/tonne from 6.2 grammes/tonne.

Kinross also showed substantial improvement, raising after-tax profits to R31.1m from R21.5m. Winkelhaak improved its after-tax figures to R21.5m from R13.6m, while Buffelsfontein's improvement was less dramatic, boosting profits to R16.3m from R14.5m.

● Gold mines in the Anglovaal group increased attributable profit slightly for the September quarter, raising attributable profit of R46.2m, up from R45.3m in the previous three months.

As usual, the bulk of the profit came from heavyweight producer Hartebeesfontein, which in spite of lower yields achieved managed to raise after-tax to R42.1m from R40.4m.

Loraine, the group's other big mine, managed to exploit higher grade ore to reduce its operating loss to R238,000 from R2.75m. However, after-tax losses rose sharply to R2.35m compared with R277,000 previously as the mine provided for R2.2m in rehabilitation costs and was forced to pay R1.8m in tax on non-mining income.

Of the smaller mines, Eastern Transvaal increased its tax profit slightly to R6.2m from R5.4m.

Saga and Statoil in assets swap

By Karen Fossli in Oslo

Saga Petroleum, Norway's largest independent oil group, and Statoil, the Norwegian state oil company, yesterday announced details of a planned asset swap programme designed to facilitate a NKr40bn ($6.1bn) development of three gasfields in the Norwegian Sea.

The two companies signed a letter of intent covering the complex arrangement, with the aim of completing a detailed purchase and sales agreement on November 1.

Saga confirmed it would take over operational responsibility for Statoil's North Sea Fenris oil field and Statoil would buy 15 per cent of Saga's 50 per cent shareholding in the field, increasing its Fenris stake to 35 per cent.

The company will take over 10 per cent in two exploration licences in the Fenris area.

Saga will also acquire from the state a 7 per cent interest in each of the two licences comprising the Smoerbukk and Smoerbukk South gasfields. This transaction will need parliamentary approval.

In return, Statoil will acquire two Saga shareholdings, 5 per cent and 0.625 per cent, in the Norwegian Sea Heidrun oilfield. Statoil will also take over the operation of Saga's Midgard gas field, comprising two licences.

Midgard, Smoerbukk and Smoerbukk South are situated in Haltenbanken off the coast of mid-Norway.

"This is a pioneer agreement which is very important for the two companies ... and for the development of Haltenbanken," said Mr Harald Norvik, chief executive of Statoil.

"I think we will see more and more of these deals in future."

The joint Haltenbanken development will compete with North Sea fields to supply continental Europe with natural gas.

Mr Asbjoern Larsen, chief executive of Saga, said his company would be an equal partner in the co-ordinated development of the three fields.

One aim of the companies is to cut even further Haltenbanken development costs, which were estimated in 1992 at NKr50bn. They plan to complete a detailed development concept by late 1995 and, if plans are approved by energy authorities, production can start in the year 2000.

Indosat shares rise on Jakarta SE debut

By Manuela Saragosa in Jakarta

Shares in Indosat, the Indonesian state-owned satellite telecommunications company, made their debut on the Jakarta Stock Exchange yesterday after a listing of American Depositary Shares in New York earlier this week.

Indosat shares ended the day in Jakarta at Rp8,475, up from the initial price of Rp7,000.

ADSs, equal to 10 Indosat shares, were trading at $38.25 around midday yesterday, up $1.12 on the day and up from the initial price of $32.05.

Some brokers claimed the unexpectedly high opening price on the Jakarta exchange was orchestrated to stimulate domestic demand.

"The first trade was a well-rehearsed transaction," said Mr Andrew Vaughn, head of research at G.K. Goh Ometraco in Jakarta.

However, the fact that investors were prepared to pay almost 20 per cent more than the initial public offering price in both cities is a sign of confidence in the company's future.

Brokers say Indosat is one of Asia's most profitable companies. It employs about 1,600 people and recorded net profits of Rp237bn ($109m) in 1992 against Rp208.5bn in 1991.

Indonesia is expected to invest about $10bn by the year 2000 in expanding telecommunications across its archipelago of more than 13,000 islands.

Indosat raised about $1bn in its New York float, or 25 per cent of the company's stock. It listed 10 per cent of its stock in Jakarta. A report on the initial public offering of the shares in Jakarta is expected to show that the shares were more than twice subscribed.

● American Depositary Receipts of Philippine Long Distance Telephone, the Philippines' biggest telecommunications company, were listed yesterday in New York and on the Pacific stock exchange in the US, writes Jose Galang in Manila.

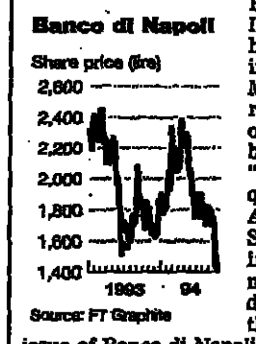
Each of the ADRs represents one share of common stock. A total of 22m ADRs were listed at an opening price of $59.50 each, corresponding to the common stock's closing price on October 18.

Citibank, which packaged the programme, said holders of the stock would be entitled to exchange without charge their shares for the corresponding amount of ADRs. Citibank will also provide depositary facilities for the ADRs and will act as custodian bank in Manila for the PLDT shares.

PLDT said its common stock "will benefit from the increased visibility and liquidity afforded by the NYSE listing". Trading in PLDT common shares in the US will be suspended.

NEWS DIGEST

Moody's lowers Banco di Napoli credit rating



Banco di Napoli, one of Italy's largest banks, has had its credit rating downgraded by Moody's, the US credit rating agency, because of pressure on the bank's profitability and "deteriorating asset quality", writes Andrew Hill in Milan. Salomon Brothers, the international investment bank, was yesterday forced to improve the terms of a $100m issue of Banco di Napoli five-year floating-rate notes, which it had sold to investors just before the Moody's announcement on Tuesday night. Salomon, which said it had no prior warning of the downgrade, also offered to buy back the floating-rate notes from angry investors.

Moody's downgraded the rating of Banco di Napoli for long-term senior deposits to Baa1 from A2, and to Baa2 for subordinated deposits, from A3. The ratings for senior and subordinated debt of the bank and its subsidiaries were also lowered.

The downgrade comes as a further blow to Banco di Napoli, one of Italy's longest established banks. Last month, the bank announced disappointing first-half results, after making heavy provisions against bad loans. Since then, the bank's share price has declined 17 per cent, although it held firm yesterday.

CNP rises 14.9% to FFr691.5m in first half

Caisse Nationale de Prevoyance, the French state-owned insurance group, achieved net profits of FFr691.5m ($130.71m) in the first half of the year, a 14.9 per cent rise over the same period in 1993, writes John Ridding in Paris.

Mr Pierre Darnis, chairman, said the increase in profits was achieved on revenues of FFr39.6bn, a rise of 19 per cent over the first six months of last year.

The insurance group is being prepared for a partial privatisation, which is expected to take place by the end of the year. Under the terms of the operation, the government will reduce its 42.5 per cent direct holding in the company. However, the state will retain control of the group through indirect investments via the post office and the Caisse des Depots, the state financial institution.

Observers believe the state will sell about 30 per cent of CNP's capital, which would bring estimated receipts of about FFr4bn. Analysts have valued the company as a whole at about FFr12bn.

CNP, which specialises in life insurance products, has enjoyed rapid growth over recent years, increasing its sales by more than 50 per cent in 1993 to FFr64.3bn. It achieves most of its sales through post office and savings bank branches and through tax offices.

MIM Holdings bounces back to black in quarter

Higher commodity prices and a cost-control programme have allowed MIM Holdings, the Australian metals producer, to return to the black in the quarter to September, writes Bruce Jacques in Sydney.

The company yesterday announced it had turned a A$24.7m loss into a A$16.6m (US$12.20m) profit in the period, on a 28 per cent increase in sales to A$530.8m from A$413.6m.

Directors said sales volumes for most products, notably copper and zinc, were up sharply and while prices were higher, they were offset by currency movements. The company's cost of sales increased 18.5 per cent to A$463.5m.

MIM's asset sale programme had raised A$584m since July last year, strengthening the group's balance sheet and providing flexibility to fund new projects, the group said.

The result followed a tax provision of A$12.1m, compared with A$3.5m, and excluded a net foreign exchange gain of A$1.3m against A$2.3m. There were no abnormal items, against a A$17.8m loss last time.

Incitec profits hit by Australian drought

Widespread drought cut net profit of Incitec, the Australian fertiliser and chemicals group, by 7 per cent to A$29.6m from A$31.8m in the year to September, writes Bruce Jacques.

Directors said second-half earnings were particularly hit by drought which eroded margins in the fertiliser business. But this was partially offset by expansion in the industrial chemicals business.

The directors expected tight conditions to continue but have declared a special dividend of 28 cents a share to pass franking tax credits to shareholders.

The ordinary dividend has been reduced to 20 cents a share from 23 cents.

The result followed a 5.2 per cent sales increase to A$675m. Tax provisions took A$16.3m compared with A$12.4m, and depreciation A$22.9m against A$24.8m. Interest expense took A$5.4m against A$6.9m.

San Miguel plans third brewery in China

San Miguel Corporation, the Philippine brewing and food group, has formalised plans for a new joint venture brewery in China, its third in that market, writes Jose Galang in Manila.

The company signed an agreement with Hebei Bada Group of Baoding City in Hebei province for the establishment of the brewery under a company to be called San Miguel Bada Baoding Brewery.

The Philippine group will have a 70 per cent controlling interest for its initial investment of $21m.

San Miguel's other joint venture breweries in China are in Guangzhou and Shunde in the southern province of Guangdong.

The new plant, which is scheduled to start operations in 1996, will have an initial production capacity of 700,000 hectolitres a year, to be "expanded eventually to 2m hectolitres", the group said yesterday.

MAS in joint venture with Cambodian carrier

Malaysia Airlines (MAS) says it is forming a joint venture with Royal Air Cambodge (RAC), the Cambodian carrier, which could involve taking up an equity stake, writes Kieran Cooke in Kuala Lumpur.

Mr Tajudin Ramli, the Malaysian entrepreneur who gained control of MAS earlier this year through a highly-leveraged M$1.79bn (US$691m) deal, said the joint venture with RAC would be similar to one recently formed between MAS and Air Maldives. Under that agreement Air Maldives is leasing an Airbus A300 with crew from MAS.

Mr Tajudin has said that MAS intends to take a 49 per cent stake in Air Maldives and turn it into a fully-fledged international carrier. The size of the stake MAS intends to take in RAC was not disclosed.

Last year, Singapore Airlines (SIA) said it was considering taking a 40 per cent stake in RAC, but SIA recently withdrew from the deal saying that it had been unable to agree terms with the Cambodian carrier.

Saudi groups improve

Two of Saudi Arabia's cement companies have reported higher profits for the first nine months of this year on the back of a construction spree following the Gulf war in 1991, Reuter reports from Manama.

The Southern Province Cement Company reported a 5.6 per cent rise in net profit to SR218m ($58.1m) up from SR206.4m in the corresponding 1993 period. The Arabian Cement Company said its net profit for the first nine months rose to SR84.3m from SR77.3m a year earlier.

Kodak unravels a multi-billion dollar web

By Richard Waters in New York

Paying off $5bn of debt and retiring $7bn worth of swaps and options must rank as one of the biggest balance sheet restructuring operations. For Eastman Kodak, which is undertaking the process, the result is likely to be a charge to earnings that runs into the hundreds of millions of dollars – though its derivatives strategy has cut the company's borrowing costs over a number of years.

Kodak took on the debt in 1988 to finance its purchase of Sterling, a drugs company. On top of this debt – a mixture of fixed-rate and zero-coupon bonds, much of it callable – the US photographic products company layered an array of interest rate and currency swaps, along with interest options. Its overall aim at the time was to restructure the debts, in part to take advantage of arbitrage opportunities between the corporate debt and derivative markets.

"There were two objectives – one was to reduce borrowing costs, the other was to receive cash," says Mr Jesse Greene, Kodak's current treasurer.

One arbitrage exploited by Kodak in the late 1980s, for example, involved the use of

DERIVATIVES

callable debt linked with options to create synthetic fixed-rate debt. The company issued callable bonds, then sold call options in the market to receive an immediate cash premium.

If interest rates fell, Kodak could pay off the bonds at the call date – but at the same time, the buyer of the option could exercise its own call on Kodak. The effect for the company was indistinguishable from issuing straight fixed-rate debt at the outset, except that it received premium income on the option. This arbitrage strategy is thought to have saved the company 10-15 basis points on its borrowing costs.

As a result, about $2.8bn of the $7.5bn notional value of Kodak's derivative instruments at the end of last year comprised options linked to callable debt.

Elsewhere, Kodak had taken advantage of a variety of arbitrages to reduce its borrowing costs. It had, for example, swapped $135m of fixed rate dollar bonds into yen-denominated instruments, and $46m into D-Marks, in both cases to reduce its costs.

The overall holdings of derivatives to which this sort of opportunistic debt management policy gives rise can look like a grab-bag. That the notional value of the instruments – at $7bn – is higher than the value of the debt, and the mix of instruments is so broad, testifies to the layering of different approaches over time.

Such an approach to debt management is common among big companies with sophisticated treasury operations, says Mr Irving Wilson, a managing director at CS Financial Products who has worked on balance sheet restructuring.

According to Kodak and CS Financial Products and Lehman Brothers, its advisers, unwinding the derivatives positions has been relatively straight forward and not resulted in unusual costs: swaps have been in the liquid US dollar, yen and D-Mark markets making it easy to reverse trades without affecting overall market spreads. Mr Greene says in most cases the unwinding was done with the original counterparties to the instruments, though the company accepted outside bids for parts of the portfolio.

For Kodak shareholders, there will be one simple way to assess how successful Kodak has been with the programme.

In its quarterly reports for the end of June, Kodak revealed that its long-term borrowings had a fair value that was about $241m above the value at which they were recorded in the company's accounts (since the debt was issued at a time when interest rates were higher than at present, Kodak would in theory have to pay this amount to buy the debt back). Its swaps and options, meanwhile, were showing a fair value some $370m below the level at which they were recorded.

The message: the whole debt-retirement package would have cost $611m at that time – that was at least an advance on the end of 1993, when lower prevailing interest rates meant the cost to the company of retiring the debt would have been nearly $1.2bn.

Kodak has reported pre-tax costs of $162m from unwinding its various positions. Bond yields have risen slightly from their June levels, bringing down the cost of the programme. However, the message from quarterly report is that there are several hundred million dollars worth of charges still to come.

INTERNATIONAL CAPITAL MARKETS

Spread of Argentina's $500m global issue surprises

By Graham Bowley and Richard Lapper

The Republic of Argentina launched its long-awaited global eurobond offering yesterday, with a $500m issue of five-year fixed-rate bonds.

Syndicate managers expressed surprise at the spread, of 337½ to 350 basis points over US Treasuries, offered on the bonds. "Argentina was expected to come at around 275 to 300 basis points but because of the deal's size and the difficulty of the markets, it has had to come higher. But even then it is struggling," said one syndicate manager.

However, joint lead manager Deutsche Bank said the pricing accurately reflected demand and current market conditions.

"The pricing is a realistic assessment of how the demand is building. We tried to match price insensitive retail demand in Europe, for whom the coupon is more important, and institutional demand in the US which is more value sensitive," said a syndicate official at Deutsche Bank.

INTERNATIONAL BONDS

He said 80 per cent of demand came from retail and institutional investors in Europe, with the remainder coming from the US.

The bonds, Argentina's first significant dollar issue since December 1993, will be priced today.

The National Bank of Canada launched a $200m offering of five-year floating-rate notes, increased to $250m because of the huge demand for the issue.

The bonds were priced to yield 20 basis points over three-month Libor.

Fannie Mae, the US mortgage agency, announced its intention to borrow $20bn in international markets, launching what it claimed was the "largest global funded programme in the world".

Lehman Brothers, the US investment bank is arranging the new facility, with 10 other international banks involved in the marketing and distribution of the issue.

The association made its debut in global bond markets in June, issuing $1.5bn of 10-year global debentures.

Abbey National said that it plans to return to the US market following the success of its $500m offering of yankee bonds launched on Tuesday.

Mr Gareth Jones, Abbey National treasurer, said that it would look to do a global offering of $1.5bn early next year.

Salomon Brothers was forced to raise the coupon on the $100m offering of five-year floating-rate notes launched by Banco di Napoli on Tuesday after Moody's, the US credit rating agency, downgraded the Italian bank.

A Salomon syndicate official said: "The market has now stabilised and at these cheaper levels I think we are going to see more investors coming in to buy the paper."

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
MBNA MCCT II, S.1994 C(a1)‡	870	(a2)	(a2)	Mar.2004	0.35	-	Merrill Lynch International
MBNA MCCT II, S.1994 D(b1)‡	522	(b2)	(b2)	Mar.2000	0.225	-	Merrill Lynch International
Republic of Argentina	500	(c)#	(c)R	Nov.1999	0.625R	(c)(WI 5yr)	Deutsche/Goldman/JP Mrgn
National Bank of Canada(d)‡	250	(d1)	99.88R	Nov.1999	0.20R	-	Goldman Sachs International
Eksportfinans(e)	200	zero	100.00	Nov.1999	undisd.	-	Goldman Sachs International
Central Puerto/Central Neuquen	100	10.75#	99.552R	Nov.1997	1.00R	+400(6½%-97)	Citibank International
D-MARKS							
Unibanco	100	9.75	101.30	Nov.1997	1.60	-	Commerzbank
SWISS FRANCS							
Govt. Asset-Backed Secs.(f)	100	4.875	100.00	Jan.1998	undisd.	-	UBS
LUXEMBOURG FRANCS							
Electricité de France(g)	2bn	7.75	102.50	Feb.2000	1.75	-	BGL

Final terms and non-callable unless stated. The yield spread (over relevent government bond) at launch is supplied by the lead manager. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a,b) MBNA Master Credit Card Trust. a1) Class A. Expected maturity: Oct.01. Average life: 7 yrs. a2) Priced later, indicated coupon: 1-mth Libor +26-28bp. a3) Class B: $45m, expd mat Nov.01, ave life 7.08 yrs, 1-mth Libor +45-48bp. b1) Class A. Expected maturity: 15/10/97. Average life: 2.97 yrs. b2) Priced later, indicated coupon: daily fed funds +33-35bp. b3) Class B: $27m, expd mat 15/11/97, ave life 3.05 yrs, 1-mth Libor + around 35bp. c) Priced today at 337½-350bp over T's. d) Increased by $50m to $250m at 99.97R. d1) 3-mth Libor +20bp. e) Redemption formula: par x 0.9557 x final GS Commodity Index(total return) + 2160.46. f) Short 1st coupon. g) Long 1st coupon.

Airbus Finance in $1bn loan launch

By Graham Bowley

Airbus Finance, the sales finance company recently established by Airbus Industrie, the European aircraft-building consortium, yesterday publicly launched a $1bn syndicated loan, its debut transaction.

The seven-year revolving credit facility carries an interest rate of 30 basis points above Libor for the first four years of the loan and 35 basis points over Libor for the remaining three years.

The loan is guaranteed by Airbus Industrie's four shareholders, Aerospatiale, Daimler-Benz, British Aerospace and Construcciones Aeronauticas. Eventually it is hoped that AFC, which will provide finance to Airbus Industrie's customers for the purchase of aircraft, will become a separately-rated stand alone company.

The company intends to return to the syndicated loans market and also to eventually tap the international capital markets, J. P. Morgan said. J. P. Morgan is AFC's financial adviser and has played a key role in the design of the loan.

The loan is being placed among selected relationship banks of Airbus Industrie and banks of Airbus' four shareholders. Banks are being invited to participate at levels of either $60m or $30m with participation fees of 12.5 basis points or 6.25 basis points respectively.

On the undrawn part of the facility, AFC will pay a commitment fee payable quarterly in arrears at 12.5 basis points in the first three years and 15 basis points thereafter. Additionally, there will be a fee of 2.5 basis points per annum if the use of the facility exceeds 50 per cent and a fee of 5 basis points if use exceeds 75 per cent.

European sector weakens as profit-taking continues

By Conner Middelmann in London and Frank McGurty in New York

Profit-taking continued to weigh on European government bond markets yesterday, and dealers said trading would remain range-bound and directionless until there were new fundamental factors to inspire them.

Prices in Europe opened on a softer tone after US Treasuries had weakened overnight, and continued to slip throughout the day. However, "there hasn't been a lot of selling pressure – we're in a consolidative phase," said Mr Paul Campayne, bond strategist at Paribas Capital Markets, adding: "The markets moved up sharply in a short period of time, and now they're taking a breather."

■ German government bonds once again set the pace, slipping by nearly ½ point after the December bund future breached key technical support at 90.50. It fell as low as 90.20 before closing around 90.42, down 0.40 point on the day. A break of the next key support level at 90.00 could open the way to 89.80 or lower, traders said.

GOVERNMENT BONDS

"In the last two days, we've lost all the gains seen in the wake of the German elections," said Mr André de Souza, international bond strategist at PaineWebber. "Now we're awaiting M3 for further direction."

Rumours that September M3 money supply growth, expected to be published late this week or early next week, would not be as low as expected also spooked the market.

After an August growth rate of 8.2 per cent, analysts have been calling for a September rate between 6.9 per cent and 7.5 per cent; however, talk yesterday was of a number of about 8 per cent. "In the wake of these rumours, a number below 7.5 per cent would probably support bunds," said a dealer.

■ UK gilts shadowed bunds lower yesterday, with profit-taking reinforced by slightly disappointing retail sales numbers.

"In the pre-auction phase disappointing news is often used as an excuse for the market to cheapen up," said Mr Chris Anthony, gilt analyst at ABN Amro Hoare Govett. The Bank of England is due to auction £2.5bn of 8 per cent gilts due 2000 next Wednesday.

Dealers reported some shifts by investors into the 10-year sector from the ultra-long end of the yield curve; moreover, they said there had been active two-way dealings in the new gilt which is trading on a when-issued basis.

■ While Swedish bonds eased in line with most other markets on continued profit-taking, most traders were looking to today's meeting of the new Riksbank policy-making council.

"Following the inflation report, the odds have shortened for a tightening at this meeting," said Mr de Souza at PaineWebber. On Monday, the central bank published a report warning of rising inflationary pressures, and market participants have been gearing up for another interest rate hike in the coming weeks.

■ US Treasury bonds gave ground yesterday morning even though August trade data produced no surprises and the dollar held fairly steady.

By midday, the benchmark 30-year government bond was 7/16 lower at 95 1/16, with the yield rising to 7.893 per cent. On the short end, the two-year note was down 1/16 at 99¾, to yield 6.619 per cent.

The weak tone which had been established the previous session carried over into the opening. Bonds across the yield curve were showing modest losses even before the Commerce Department released the latest figures on the US performance on trade.

The report had minimal impact. Bonds held steady at their lower levels on news of a $9.7bn trade deficit in August, close to what economists had been forecasting. The figure represented a narrowing of July's upwardly revised trade gap of $11.19bn.

However, the data itself was less important to the bond market than on the value of the dollar, which would be likely to fall on an unexpectedly wide deficit. Traders were worried that a weaker dollar would diminish the attraction of US-denominated securities.

In the event, the currency was performing fairly on the foreign exchange markets. It improved against the D-Mark, but slipped against the yen. Traders were showing some concern that the US deficit with Japan in August was a little larger than forecast.

As the afternoon began, the bond market was turning its attention to the announcement of details on next week's Treasury auctions of five-year and two-year notes.

There was some concern that the government would increase the normal size of the five-year sale at a time when the market's ability to absorb the extra supply was still an open question.

Finnish chemicals group valued at up to FM5bn

By Martin Brice

The international offering of shares in Kemira, the state-owned Finnish chemicals group, is expected to value the company at up to FM5.16bn ($1bn).

The sale of 25 per cent of shares in the group is expected to raise between FM1.1bn and FM1.3bn, making it Finland's biggest initial public offering.

Global co-ordinator and book-runner Merrill Lynch reports good interest. It has two teams marketing the deal to international investors, with final pricing due in November. Merrill has been involved in Finnish international equity offers from Outokumpu, the mining and metals group, Valmet, the paper machinery and engineering group, and Rautaruukki, the steel group, within the past year.

The group, Finland's eighth largest by sales, will offer 30m shares, at between FM37 and FM44 each. Postipankki is handling the domestic and Nordic side, and the US tranche is being handled by Merrill Lynch with Goldman Sachs, UBS and S.G. Warburg.

The rest of the world is being handled by Merrill with Indosuez, UBS, Postipankki, S.G. Warburg, ABN Amro, Dresdner, Daiwa, James Capel and Kleinwort Benson.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	92.5500	-0.180	10.21	10.20	10.10
Belgium		7.250	04/04	83.0700	-0.480	8.32	8.45	8.63
Canada *		6.500	06/04	83.5500	-0.500	9.11	9.00	9.02
Denmark		7.000	12/04	88.5000	-0.300	8.75	8.94	9.20
France	BTAN	8.000	05/98	102.2100	+0.210	7.33	7.48	7.56
	OAT	5.500	04/04	83.5000	-0.210	8.04	8.11	8.22
Germany Treu		7.500	09/04	100.6000	-0.380	7.41	7.56	7.71
Italy		8.500	08/04	81.5900	-0.440	11.71†	11.75	11.75
Japan	No 119	4.800	06/99	102.8650	+0.060	4.07	4.16	3.87
Japan	No 164	4.100	12/03	98.2180	+0.310	4.69	4.78	4.50
Netherlands		7.250	10/04	98.8800	-0.460	7.41	7.52	7.64
Spain		8.000	05/04	81.9500	-0.450	11.14	11.09	11.34
UK Gilts		6.000	08/99	90-16	-4/32	8.43	8.42	8.86
		6.750	11/04	87-22	-14/32	8.58	8.59	9.04
		9.000	10/08	103-14	-16/32	8.57	8.59	8.97
US Treasury *		7.250	08/04	97-04	-10/32	7.67	7.68	7.55
		7.500	11/24	95-16	-14/32	7.89	7.89	7.83
ECU (French Govt)		8.000	04/04	84.1900	-0.280	8.48	8.60	8.81

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	7¾	One month	4.73	Two year	6.62
Broker loan rate	6½	Two month	5.32	Three year	6.93
Fed.funds	4 11/16	Three month	5.04	Five year	7.33
Fed.funds at intervention	-	Six month	5.58	10-year	7.67
		One year	6.07	30-year	7.90

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.62	111.52	-0.26	111.72	111.36	129,999	130,520
Mar	111.86	110.76	-0.26	110.86	110.70	1,146	10,984
Jun	110 10	109.96	-0.28	110.10	110.10	2	661

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
110	1.62	2.05	2.47	0.08	0.56	1.65
111	0.78	-	1.90	0.29	0.91	2.12
112	0.29	0.90	1.41	0.82	1.34	2.66
113	0 07	0 51	1.04	-	1.95	-
114	-	0.25	0.72	-	-	-

Est. vol. total, Calls 18,340 Puts 20,083 . Previous day's open int., Calls 261,543 Puts 333,812.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90 74	90 37	-0.45	90.74	90.20	143812	179042
Mar	89.80	89.57	-0.47	89.80	89.50	275	4268

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9000	0.61	1 19	1.02	1.37	0.24	0.82	1.45	1.80
9050	0.33	0.93	0.81	1.15	0.46	1.06	1.74	2.08
9100	0.15	0.69	0.63	0.95	0.78	1.32	2.06	2.38

Est. vol. total, Calls 26910 Puts 17918. Previous day's open int., Calls 285989 Puts 260809

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.55	99.43	-0.35	99.84	99.35	27060	61326
Mar	98.70	98.69	-0.29	98.90	98.70	648	3495

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9900	1.75	2.60	1.32	2.91
9950	1.45	2.37	1.52	3.18
10000	1.20	2.18	1.77	3.47

Est. vol. total, Calls 662 Puts 1693. Previous day's open int., Calls 22977 Puts 27479

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.458	87.08	-0.50	87.46	86.80	67,324	75,485
Mar	-	86.16	-	-	-	-	50

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101-24	101-19	-0-13	101-27	101-08	58643	93803
Mar	-	100-22	-0-13	-	-	0	48

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
101	1-41	2-25	1-03	2-45
102	1-07	1-58	1-33	3-14
103	0-44	1-31	2-06	3-51

Est. vol. total, Calls 5357 Puts 1832. Previous day's open int., Calls 74813 Puts 43025

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	81.16	81.14	-0.26	81.24	81.00	1,566	7,088

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	98-30	98-21	-0-12	99-00	98-17	304,035	403,582
Mar	98-08	97-31	-0-12	98-08	97-28	1,416	27,140
Jun	97-15	97-10	-0-14	97-15	97-09	2	11,180

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Dec	107.45	-	-	107.67	107.45	2875	0
Mar	106.77	-	-	106.77	106.77	18	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Oct 19	Day's change %	Tue Oct 18	Accrued interest	xd adj. ytd		Low coupon yield Oct 19	Oct 18	Yr. ago	Medium coupon yield Oct 19	Oct 18	Yr. ago	High coupon yield Oct 19	Oct 18	Yr. ago
1 Up to 5 years (24)	119.10	-0.11	119.24	0.99	9.83	5 yrs	8.51	8.46	6.01	8.57	8.53	6.28	8.72	8.67	6.44
2 5-15 years (22)	139.45	-0.24	139.77	1.69	10.66	15 yrs	8.47	8.41	6.92	8.60	8.55	7.07	8.84	8.78	7.29
3 Over 15 years (8)	155.89	-0.55	157.51	1.95	10.57	20 yrs	8.43	8.36	7.05	8.60	8.55	7.13	8.73	8.65	7.31
4 Irredeemables (6)	180.22	-1.03	182.10	4.19	8.83	Irred.†	8.50	8.40	7.20						
5 All stocks (60)	136.50	-0.25	136.96	1.50	10.46										

Index-linked							Inflation 5% Oct 19	Oct 18	Yr. ago	Inflation 10% Oct 19	Oct 18	Yr. ago
6 Up to 5 years (2)	185.95	+0.01	185.94	0.23	5.07	Up to 5 yrs	3.83	3.82	2.25	2.62	2.61	1.39
7 Over 5 years (11)	173.24	-0.21	173.61	0.86	4.36	Over 5 yrs	3.84	3.83	3.11	3.64	3.63	2.92
8 All stocks (13)	173.66	-0.19	174.01	0.82	4.41							

Debentures and Loans						5 year yield Oct 19	Oct 18	Yr. ago	15 year yield Oct 19	Oct 18	Yr. ago	25 year yield Oct 19	Oct 18	Yr. ago
9 Debs & Loans (77)	128.17	-0.31	128.57	2.32	8.95	9.62	9.79	7.70	9.57	9.58	8.01	9.52	9.48	8.13

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Oct 19	Oct 18	Oct 17	Oct 14	Oct 13	Yr ago	High*	Low*
Govt. Secs. (UK)	91.60	91.78	92.28	91.69	91.73	103.31	107.04	89.54
Fixed Interest	108.55	109.08	108.69	108.65	108.22	124.88	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Oct 18	Oct 17	Oct 14	Oct 13	Oct 12
Gilt Edged bargains	89.6	91.4	97.9	103.6	105.3
5-day average	97.6	99.3	99.2	95.6	90.6

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 19

	Issued	Bid	Offer	Chg.	Yield
[illegible]					

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	1994 High	Low
[illegible]						

Other Fixed Interest

* "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Forte creates separate County Hotels chain

By Michael Skapinker, Leisure Industries Correspondent

Forte yesterday reshuffled its hotel portfolio, putting 80 of its lower-grade properties in a new company which will not carry the group's name.

Forte said 60 of its Heritage hotels and 20 unbranded properties would be placed in a new company called County Hotels. The hotels will be promoted separately from the rest of the group. Forte intends to look for a buyer or joint venture partner for them.

Forte's Heritage group of hotels will be halved in size to 51 properties which will be in the three- and four-star categories. The Heritage hotels are traditional properties in rural locations, historic cities and market towns.

The group also announced that it would refocus its Forte Grand hotels, making them partners for the Meridien chain. Forte won control of Meridien last month, defeating Accor of France.

The Grand hotels are 26 of Forte's first class properties. They include the Waldorf in London, the Bath Spa and the Balmoral in Edinburgh. Some of the more traditional Grand hotels, such as the Compleat Angler in Marlow are to be moved into the Heritage group.

The Grand hotel group does not include Forte's most luxurious properties, which are part of the Exclusive group.

The reshuffle leaves Forte with the following brands:

- Exclusive: these are 17 luxury hotels, including the Plaza Athénée and George V in Paris, the Sandy Lane in Barbados, the Hyde Park in London and the Ritz in Madrid.
- Forte Grand: 26 hotels.
- Forte Heritage: 51 hotels.
- Meridien: 54 hotels. Meridien properties are in several cities in which Forte has had no presence, including Tokyo, Singapore, Jakarta, Bangkok and New Delhi.
- Forte Crest: 30 hotels. These are four-star hotels in city centres and at airports, offering business facilities.
- Forte Posthouse: 65 hotels. These are modern three-star hotels, many near large towns and motorways.
- Forte Agip: 18 hotels. A joint venture with Agip, the state-owned Italian petrochemical company. These are modelled on Forte Posthouse. The chain has 17 hotels in Italy and one in Hungary.
- Forte Travelodge: These are budget hotels, mainly on motorways and main roads. Forte opens its 100th UK Travelodge on Monday. It also has two in the Irish Republic and is building two in Spain. It has 436 Travelodges in the US.

Havelock Europa recovery gathers pace with £1.56m

By James Buxton, Scottish Correspondent

Havelock Europa, the storefitting company, trebled pretax profits to £1.56m in the first six months of this year, on turnover ahead 24 per cent to £15.7m.

The results, up from £505,000 previously, continued the recovery in the Scottish-based company's fortunes, which began last year after two years of losses.

The shares rose 18p to 188p.

Mr Norman Lessels, chairman, said Havelock was profiting from increased demand from retailers and financial services companies, and gaining market share in its industry, from which a number of players had dropped out.

Mr Hew Balfour, chief executive, said the company had added Tesco to a list of clients which included Boots, Woolworths, Safeway and House of Fraser. Financial services customers made up 20 per cent of turnover, compared with 11 per cent in 1991.

Mr Balfour said the company was seeing the success of a strategy devised in 1992. It was benefiting from improvements in manufacturing efficiency, additional investment in computer-aided design and alliances with other companies, such as AT&T, which is a sizeable force in automated cash machines.

The company had net cash of £2.4m on June 30, compared with net debt of £2.1m a year earlier.

It is to pay its first interim dividend since 1991, of 1p, and a total of not less than 2.75p (2p) is forecast for the year.

Earnings per share improved from 1.9p to 5.2p.

Mr Lessels said that the second half would be, as usual, be stronger in terms of turnover than the first, although the imbalance between the two halves would not be as pronounced as in 1993. The order book was buoyant.

Allied Provincial, the company's broker, is forecasting pretax profits of about £4m and earnings per share of 12.4p for the full year, rising to £5m and 14p respectively in 1995.

Paul Murphy

Hew Balfour: seeing success of strategy devised in 1992

Star Song's evangelical choir joins EMI stable

By Graham Deller

"Where artistry meets ministry" is a long way divorced from the usual record company hyperbole. It is, nevertheless, the corporate slogan of Star Song Communications.

Star Song is based in the Country & Western capital of Nashville but its artistic and moral repertoire is definitely of an evangelical nature.

EMI Music, a New York-based offshoot of Thorn EMI, the music and rentals group, is strengthening its interests in the "Christian music" field by paying $15.5m (£9.8m) cash for Star Song, which has a "strong roster" of Christian artists and exclusive distribution agreements with several other leading US Christian music companies.

EMI is already the largest force in this specialist market following its purchase in 1992 of Sparrow Corporation.

Star Song will operate as a separate label within the EMI stable, and maintain its "creative autonomy". Mr Stan Moser, its current president, will remain as chief executive officer. "Where artistry meets ministry is more than a nice slogan to us. We are dedicated to taking Christ-centred music to a worldwide audience."

Mr Jim Fifield, EMI Music's chief executive, said that Sparrow had exceeded expectations since its acquisition. "Star Song's extremely diverse and strong roster will complement Sparrow's and their combined strength will create new growth opportunities."

Warnford slips to £2.22m

Profits of Warnford Investments slipped from £2.31m to £2.22m after tax in the six months to June 24 and directors of the property investment concern said the second half figure would be about the same as for the first.

Gross rents and service charges totalled £5.53m (£5.79m) and earnings per share came to 5.78p (6.01p). The dividend is held at 2.75p.

Mr George Ross Goobey, chairman, is retiring on December 25 and will be replaced by Mr Michael Ross.

Healthcare's dash for growth

Richard Wolffe on prospects for a market valued at more than £7bn

While economists argue over the impact of the UK's demographic time-bomb, one market is already evolving to cope with the inexorably rising demands of old age.

The combination of an ageing population and a shift in government healthcare policy has helped to create a residential and nursing care market which is conservatively valued at more than £7bn.

Forecasts suggest that demand will rise by 15 per cent before the year 2000, adding between 60,000 and 80,000 beds to today's stock of 540,000.

In the wake of community care legislation and the closure of long-term NHS beds, the healthcare sector has reacted in a piecemeal fashion, with thousands of small operators concentrating on supplying local needs.

The traditional image dominates the market for caring for the elderly: a cottage industry of husband-and-wife teams offering small numbers of beds in converted houses.

Corporate groups account for just 8 per cent of the sector. However, they are attempting to establish themselves with a series of acquisitions, which analysts expect to continue for the foreseeable future.

This week shareholders approved APTA Nursing Services' reverse takeover of Midland Assets to create a 628-bed company specialising in subacute care. The new company, APTA Healthcare, predicts that its number of beds will grow to 898 by April 1996.

Court Cavendish, which came to the market in July 1993, spent £13.5m on acquisitions last year, almost doubling its number of beds to 1,200. The company plans to add another 500 beds under its acquisition programme.

In July, CrestaCare paid £12.6m for Scotcare, the Scottish nursing homes group, boosting its beds by 32 per cent to more than 2,800.

Meanwhile, the larger companies, including Westminster Health Care and Takare, are concentrating on building their own homes.

"I expect a lot of takeover and merger activity in the future. There are too many small groups," said Mr Roger Hardman, healthcare analyst at UBS.

"I see the existing quoted companies doing a lot of capital raising to build new premises, buying other people's premises, and merging with others to get the maximum benefits of scale."

Ashbourne Holdings, one of the UK's largest nursing homes businesses, last month announced plans for a stock market flotation, which it hoped would give it a value of between £80m and £90m.

Ashbourne aims to raise up to £50m to clear its debts and launch an ambitious expansion programme, which includes the construction of three homes next year.

However, Mr Harald Hendrikse, analyst at Smith New Court, warned that the market might be reluctant to invest in another nursing home business.

"Although Ashbourne is a very high quality company, they are going to find it tough to come to the market, because people think there are too many companies out there."

Professional care is costly for both the state and the individual. Fees for those on welfare benefits average close to £290 per week, but private patients pay an average of 10 per cent above that. State support only begins when the patient's assets dip below £8,000.

The cost of insurance can also be prohibitive. PPP Lifetime charges £117 a month to a 65-year-old man who wants cover for weekly fees of £300.

Last month, Bupa, the UK's biggest private health insurer, announced that it was moving into the long-term health-related insurance market.

Westminster Healthcare is considered the favoured stock in the sector at the moment, thanks to its 50 per cent rate of private residents. The company is seen as a high quality operation; its homes boast such extras as jacuzzis.

Some 65 per cent of Takare's patients, on the other hand, are cared for out of public funds, which means the company is restricted by the fee limits imposed by local authorities. It has to rely on a low-cost system to secure its long-term future.

However, shareholders can expect nursing homes companies to demand yet more cash over the next two years as the dash for growth continues with acquisitions and new building projects.

"It is going to get more competitive as housebuilders come back into the market, making it tough to find new sites for nursing homes," said Mr Hendrikse.

"In 18 months' time it is probably going to be quite difficult, but if they scale down their expansion, nursing home companies can basically become utilities."

NEWS DIGEST

Derwent Valley rises to £3.8m

An exceptional profit of £1.58m from associates enabled Derwent Valley Holdings, the property group, to hoist pre-tax profits from £1.12m to £3.77m in the first half of 1994.

Net rental income, benefiting from recent acquisitions, grew 45 per cent to £4.65m (£3.22m).

The exceptional credit arose from settlement of the residual liability in Dorrington Derwent Investments, following the disposal of that company's investment properties in 1993.

Adjusted earnings per share were 6.46p (4.78p). The interim dividend is 1.58p (adjusted 1.535p) on increased capital.

Exmoor Dual

Exmoor Dual Investment Trust, the split-capital trust which invests mainly in similar trusts, had a net asset value of 74.8p per ordinary share at August 31 compared with 70.4p a year earlier.

Net revenue slipped from £947,798 to £814,559 for earnings of 9.25p (10.74p) per income share and 1.63p (1.9p) per ordinary share.

A final dividend of 2.3p (2.75p) per income share brings the total to 9.05p (10.55p) while the single final dividend per ordinary share is 1.59p (1.85p).

Pura Food

Pura Food Products, a subsidiary of Acatos & Hutcheson, the edible oils group, only paid £1.13m for the contracts and stock of Hobson's oils and fats operations. It has agreed to pay £950,000 for the plant and machinery.

Avis Europe

Avis Europe achieved revenues of £202m in the half year to August 31 and earnings before interest and tax were £33m, Cilva Holdings, its parent company said.

Cilva also announced that it had reached agreement over future payments due in respect of the sale of Avis Lease in 1992, so that the amounts no longer depended on the performance of Avis Lease.

Reckitt & Colman

Reckitt & Colman has announced an 86.8 per cent take-up of its rights issue to fund the purchase of L&F Household. The company has received acceptances in respect of 40.8m of the 47m units of non-interest bearing convertible loan stock.

These were offered to qualifying shareholders at a price of 500p per unit, payable in two instalments.

Cairn Energy

Cairn Energy, the Edinburgh-based oil and gas explorer, has completed the sale of another tranche of shares in Cairn Energy USA.

This transaction brings the total raised to about £17.3m after allowing for expenses and tax and leaves Cairn Energy with a holding of 16.5 per cent.

Petrie Parkman have placed 1.93m shares in CEUSA at $7 each and has also exercised its option to acquire a further 250,000 shares in addition to the 1.68m originally agreed.

River & Mercantile

Net asset value at River & Mercantile Extra Income Trust in the year to September 30 declined from 123.79p to 97.74p.

Earnings per share worked through at 8.4p (9.3p).

The fourth interim dividend of 1.96875p makes an unchanged total of 7.875p for the year.

Aminex

Aminex, the Dublin-listed oil and gas exploration group, turned post-tax losses of I£124,860 into profits of I£481,778 (£476,159) for the half-year to June 30.

Oil and gas revenue was boosted from I£55,764 to I£3.88m, largely by Amkomi, the company's joint venture in the Komi Republic of Russia.

DFS beats flotation targets with 14% rise

By David Blackwell

DFS Furniture, which makes and sells upholstered furniture, lifted both annual profits and sales to record levels.

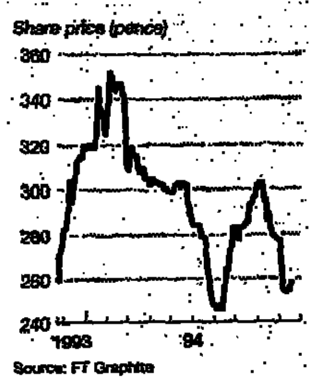
But at yesterday's close the share price remained below last year's flotation price of 260p, even after a 3p gain to 259p – a market value of £270m.

Mr Graham Kirkham, chairman, said yesterday that the results had exceeded the targets set at flotation and represented a 25-year history of increased profits. They confirmed the company's position as the "leading specialist in upholstered furniture in the UK".

Pre-tax profits for the year to the end of July, excluding exceptionals and property disposals, increased by just over 14 per cent to £22.7m, compared with £19.9m in the previous 53 weeks.

Sales were 18 per cent ahead at £134.9m (£114.2m). Operating margins were almost unchanged at 16.2 per cent.

Net cash increased from £16.1m to £26.8m. Mr Chris Ferris, finance director, said expansion plans would be met from operating cash flow. "We have never borrowed and in view of the cash generation there is no need to do so," he said.



Source: FT Graphite

While admitting that its cash pile is large, DFS believes it would not take many freehold retail opportunities to bring it down quickly. The group, which now employs a workforce of 680, opened three branches last year, taking the total to 29. It is planning to open in Swindon this year, and to add a further four outlets in 1995-96.

Capital expenditure this year is expected to remain steady at £6.9m. Net interest receivable fell from £1.3m to £886,000.

Exceptional charges of £1.36m related to the costs of the flotation. In the previous year there was a charge of £13.4m for one-off payments to directors and pension contributions.

Earnings per share grew to 14.39p (13.02p). A final dividend of 4.9p is proposed, taking the total for the year to 7.2p, against 6.4p.

● COMMENT

The retreat of the shares from the year's high of 354p in January looks like the result of disappointment at the rise in interest rates, lower durable goods sales and the continuing weak housing market. Even so, the DFS management has delivered everything it promised at the flotation, performing well in a difficult year. Its approach is inherently conservative: it likes freehold properties paid for out of strong cash flow. The in-house manufacture of 15 per cent of its sales puts it in a strong position when dealing with other suppliers. Expansion plans are constrained mainly by the difficulty of finding and training the right staff – with only 7 per cent of a fragmented market there is plenty to play for. Estimated profits of £26m this year – a prospective p/e of 15.7 – leave it at a slight premium to the sector, which seems fair enough for a retailer with a strong format and plenty of room to grow.

Dissident's appointment to board ends row at Seafield

By David Blackwell

The row between dissident shareholders and Seafield, the Dublin-based transport and distribution company, came to an end yesterday with the appointment of one of the dissidents to the board.

Mr Jonathan Glanz, a solicitor, has become a non-executive director to represent the interests of Fidex International Trust, the offshore trust that holds 18 per cent of Seafield.

At an extraordinary meeting last June the dissidents failed to oust Mr Brian Chilver, chief executive, and Mr Richard Hayes, a director. Yesterday Mr Chilver said the two sides had gone through a "good cooling off period".

"The appointment of Mr Glanz is a positive move and all shareholders will see it as that," he said.

The row and the subsequent withdrawal from merger talks of Imari, a private Irish transport company seeking a listing, cost the group £88,000.

Nevertheless Seafield reported pre-tax profits of £220,000 on turnover of £7.98m for the six months to end-June, compared with losses of £1.06m on turnover of £16.9m.

The improvement reflected a reduction in interest payable from £1.57m to £359,000 since disposal of the group's property interests.

The group now operates a fleet of 150 lorries and trailers and owns about 1m sq ft of warehousing. Since a distribution contract for Waitrose ended last year the group has increased efficiency and lowered costs, lifting operating profits to £667,000 (£505,000).

Earnings per share were 0.33p (1.6p losses).

Le Creuset 8% lower at £1.1m

By Peter Pearse

Pre-tax profits at Le Creuset, the London-listed housewares manufacturer, fell by 8 per cent in the first half of 1994 as a result of "weakness in the French barbeque market" and the strength of the French franc against the dollar and the pound.

On turnover which grew by 10 per cent to £21.3m (£19.3m), pre-tax profits were £1.07m, against £1.16m.

Mr Keith Divall, UK finance director, said that operating profits of £1.6m would have exceeded last time's £1.87m without the effect of the currency losses and the barbeque problems.

With the French economy "very quiet" in the first quarter – the barbeque buying season is from January to April – customers had been buying cheaper barbeques than the current Le Creuset models. Prices were sharply reduced, putting margins "under severe pressure". Mr Divall said Le Creuset wanted to gain market share, by having products at different price points, possibly in partnership with others.

On the currency question, Mr Divall said the group's cost base was mostly in francs, as was 40 per cent of its income. Dollars and sterling accounted for 30 per cent each. He did not expect currency to have the same drastic effect over the full year, however.

The story in the UK and the US was brighter with increased sales and "very satisfactory" demand.

Earnings advanced to 5p (4.8p) per share.

Last credits for Ealing as receivers are called in

By Alice Rawsthorn

The latest instalment in the chequered history of Ealing Studios, the home of classic British films such as Passport to Pimlico and the Lavender Hill Mob, came to an end yesterday when BBRK Group, its parent company, went into administrative receivership.

BBRK, a group of film lighting and special effects businesses, bought Ealing Studios two years ago in a £6.1m deal with the BBC. BBRK has since tried to revive the old Ealing tradition by relaunching the studios as a centre for film production.

However, yesterday BBRK was forced to call in administrative receivers for all its subsidiaries including Ealing. The studios are now being run by Casson Beckman, the insolvency practitioner, which said the full extent of its liabilities would not be known until early next week.

The receivership comes as a blow not only to Ealing itself but to the entire British film industry which has recently made some progress in its attempts to relaunch the UK as a production centre for the Hollywood film studios.

Ealing has long been regarded as a totem for the industry's fortunes. The studios were established in Ealing, an inconspicuous suburb of west London, in 1907 and within five years became the biggest film production centre in the UK.

Ealing's heyday was in the 1940s when, under Sir Michael Balcon as head of production, it turned out a string of classics – including Kind Hearts and Coronets and Whisky Galore – to entertain the British public during the second world war and post-war years.

The Balcon formula of waspish comedies free from violence and bad language seemed anachronistic by the 1950s. The BBC bought the studios in 1957 and Ealing had a new lease of life as the source of classic television drama series such as Colditz and The Singing Detective.

Since selling the studios in 1992, the BBC has continued to use Ealing for drama production, while BBRK has tried to drum up film contracts.

Casson Beckman said it intended to continue with the productions now being shot at Ealing, including a BBC drama series and a new film version of Jane Eyre, directed by Franco Zefferelli and starring William Hurt.

Barclays acts to create a stronger divide

By John Gapper, Banking Editor

Barclays has implemented changes promised by Mr Martin Taylor, the bank's chief executive following his appointment a year ago, to create a stronger divide between head office functions and the UK clearing bank.

The bank's head office personnel department is to be split, with many functions passing to UK banking services. Mr John Davies, current deputy director of personnel, will become personnel director for the UK bank.

Within the Barclays group, Mr John Cotton will become the director of group human resources. The bank said he could head a small central unit that would oversee broad personnel policy issues and manage senior personnel.

Mr Howard Trust, the legal director of BZW, Barclays' investment banking arm, has been appointed to a new position of group general counsel from next January.

L&G moves into investment trust market

By Bethan Hutton

Legal & General is joining the ranks of unit trust managers expanding into the mainstream retail investment trust market. Its first offering is a recovery investment trust, to be run by the same manager as its existing UK Recovery unit trust.

The £89m unit trust, managed by Ms Lesley Hooper, has been in the top quartile of UK equity growth unit trusts over one, three and five years to October 1, according to Micropal statistics.

The group hopes to raise between £25m and £50m for the new fund from a placing and public offer, opening towards the end of November.

DTI says bid for VSEL affects UK's 'essential security interests'

BAe instructed not to notify EU

By Robert Rice, Legal Correspondent

The UK government yesterday warned Brussels not to interfere in British Aerospace's agreed bid for VSEL, the Barrow-based submarine maker.

Mr Michael Heseltine, trade and industry secretary, has written to the European Commission stating that it would not be appropriate for Brussels to vet the merger under the EU Merger Regulation as the bid "affects the UK's essential security interests".

Asserting rights under article 223 of the Treaty of Rome, which allows member states to take measures to protect their essential interests, the government has also written to BAe instructing it not to notify Brussels of the deal.

Under EU merger rules, BAe and VSEL had until yesterday to pre-notify Brussels.

Normally, failure to notify the Commission could result in the companies being fined up to 10 per cent of their turnover. Brussels sources said yesterday, however, that neither company would be in jeopardy if they were acting on the UK government's instructions.

The government could have allowed them to notify the deal and then request the merger be dealt with by the UK competition authorities, arguing that issues of national security were involved.

However, the government decided that the notification process itself, which involves companies supplying vast quantities of information about their finances, the structure of markets and research and development, would not have been in the national interest.

The Commission's response is not expected until next week. But Mr Colin Overbury, former head of the EC Merger Task Force and a consultant to City lawyers Allen & Overy, said Brussels had shown itself to be flexible where defence issues were involved.

The crucial question would be whether other member states objected to the merger on grounds that it adversely affected their defence procurement or defence industries.

County Hall's final step into private sector

By Simon London, Property Correspondent

County Hall, once home to the controversial Greater London Council, took its final step into the private sector yesterday, more than eight years after the government first tried to sell the site.

Frogmore Estates is paying £17.5m for the three remaining buildings and land next to Waterloo Station, which it plans to turn into a mix of flats and offices.

The deal completes the disposal of County Hall (above), following the sale of the main riverside building to Shirayama, a Japanese developer, in 1993.

While details of this transaction were never disclosed, the government appears to have raised about £80m for the site as a whole, far less than originally hoped.

County Hall Development Group – a consortium which included the London & Metropolitan property group, merchant bank Lazards and the BBC Pension Fund – agreed to pay about £170m in 1988.

Planning delays and the downturn in the property market caused the plans to be abandoned and the company was put into receivership in 1990.

The London School of Economics, the UK's leading social science university, bid £65m in 1992 and campaigned to get the government to accept its plans to relocate to the site.

However, the government finally rejected the LSE's proposals in September 1992, after the financial viability of its bid was questioned.

Shirayama is converting the riverside building into a 600-bedroom hotel and leisure complex. The hotel will be managed by Mr Richard Branson's Virgin Group and is scheduled to open early in 1997.

Frogmore plans to convert the two buildings adjoining the riverside building into about 300 apartments. Under previous plans these buildings would have been demolished.

The company will seek the approval of Lambeth Council, since existing planning consents are for office and retail use.

Mr Phillip Davies, managing director, said the island building, built on a roundabout at the entrance to Waterloo Bridge, could be redeveloped as offices at a later date.

Detailed plans had not been drawn up, he added.

The original County Hall Development Group plans envisaged moving the roundabout in order to combine the island building with vacant land next to Waterloo Station. This would make room for a new office building of up to 500,000 sq ft.

COUNTY HALL

Sept 1986 - London Residuary Body appoints Richard Ellis to find buyer for County Hall site

June 1988 - County Hall Development Group bid of about £170m accepted by LRB

Sept 1989 - Lambeth Council turns down planning applications for hotel and office development

Sept-Nov 1989 - Public Inquiry

July 1990 - Inquiry inspector rules against CHDG plans

Oct 1990 - CHDG goes into receivership

Sept 1991 - Mr Michael Heseltine, environment secretary, approves amended planning application

March 1992 - £20m bid by London School of Economics rejected by LRB in favour of £60m offer from Shirayama for main riverside building

July 1992 - LSE makes £65m bid for whole site, rejected by LRB with government approval

Oct 1993 - Shirayama completes purchase

Nov 1993 - Remaining buildings sold to Frogmore Estates for £17.5m

Go-Ahead executives take pay-cuts

By Peter Pearse

In a move which appears to fly in the face of recent corporate trends, executive directors of Go-Ahead Group – which floated in May – have taken a pay cut.

The reduction applies to the year to July 2 when the Gateshead-based bus service operator lifted pre-tax profits from £315,000 to £2.87m, exceeding the prospectus forecast by 25 per cent.

The total remuneration for Mr Martin Ballinger, managing director and highest paid director, declined from £131,000 to £101,000, with his salary falling to £90,000 (£117,000). The emoluments (excluding pension contributions) of Mr Trevor Shears, finance director, and Mr Christopher Moyes, commercial director, fell from the £115,000-£120,000 band into the £80,001-£85,000 band.

Mr Shears said that directors sold some 6.63m shares at 120p at the flotation, and said that previous pay had included a "bonus ownership reward". From next year this will replaced by dividends on the directors' 34 per cent holding.

Mr Shears said the executive salary levels were "what we believe to be right for a business of our size". He added that they were still tied to a public sector background, from the management buy-out in 1987. The fear of being seen as "nasty capitalists" and the recommendations of the Monk Survey on size of business and regional position also contributed.

A recent survey of directors' pay by actuaries Bacon & Woodrow showed that executive salaries have risen by 8.5 per cent this year. Mr Shears said he expected Go-Ahead directors' salaries to rise in line with inflation next time.

The annual results included some four months' contribution from Oxford Bus Company and six months from Brighton & Hove Bus Company. On Tuesday, the group completed the near-£24m acquisition of London Central Bus Company.

SNC seeks to become full Tokyo member

By Norma Cohen, Investments Correspondent

Smith New Court, the UK-based securities company, said it is seeking to become a full member of the Tokyo stock exchange when a seat becomes available.

The Japanese Ministry of Finance has indicated it is unwilling to increase the number of seats from the current 124 and SNC will be unable to fulfil its ambition unless an existing member decides to sell a seat. Currently, 24 of the Tokyo stock exchange's seats are owned by non-Japanese firms, including five held by UK firms.

Once purchase of a seat has been agreed, it would take six to 12 months before SNC could begin to take full advantage of its stock exchange membership.

There has been growing pressure for deregulation of the securities industry in Japan, a move which could increase non-domestic participation in the markets there.

SNC has operated a representative office in Tokyo since 1987 and has recently expanded its Asian securities operations. It has seats on the Hong Kong, Singapore and Kuala Lumpur stock exchanges and has applied to operate a representative office in Shenzhen.

Waterglade's new board concedes defeat

By Christopher Price

The new board of directors at Waterglade International Holdings, the property development group which had its shares suspended on October 10, yesterday conceded defeat and said it would not oppose liquidation moves next month.

Following a boardroom coup in September, the existing management was ousted and the new board instituted an inquiry into the group's finances with a view to restructuring the lossmaking business. However, the board reported yesterday that the group's financial position made any proposed rescue plan impossible.

Waterglade's liabilities are put at £29m. Of this, some £21.5m is owed to various banks and secured on properties worth not more than £9.5m. There is also £7.5m owed to unsecured creditors – this includes about £800,000 of VAT and the winding up order initiated by the Customs and Excise office is due to be heard on November 9.

Mr Anthony Midgen, one of the new directors, said he expected the liquidator to initiate his own enquiries into the running of the company's finances, and there could also be an inquiry from Customs and Excise.

Losses increase at refocused Harrington

By Richard Wolffe

Harrington Kilbride, the magazine publisher, suffered an increased loss after closing two thirds of its titles to concentrate on contract publishing and conferences.

Pre-tax losses of £1.38m in the six months to June 30 compared with a deficit of £1.08m for the whole of 1993 and a profit of £621,000 at the interim stage last year.

There is no interim dividend (1.7p) and the shares fell 10p to 42p.

Turnover in the period under review fell 10 per cent to £7.88m (£8.76m), while the cost of sales rose 20 per cent to £6.12m (£5.11m). The company blamed its reduced margins on the high cost of establishing its new conference activities.

In August the company revoked its proposal to pay a 3.2p final dividend for 1993 after bad debt provisions led it to publish re-audited accounts. The share price almost halved when late extra provisions of £3m were made in June.

The company, which claims to be the UK's second largest contract publisher, expects to turn round its losses in the second half. Fifteen contracts, worth £4m of turnover this year, have been won, of which less than £1m was recognised in the first half.

Losses per share stood at 13.7p (earnings of 4.1p).

Glenchewton deficit reduced

Glenchewton reduced pre-tax losses for the six months to June 30 from £463,000 to £293,000 having ended 1993 with a pre-tax profit of £606,000.

Turnover at the toys and housewares importer was down slightly at £8m (£8.2m).

There were restructuring expenses of £21,000, while last year's figures took into account the recovery of £35,000 in property litigation costs.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Derwent Valley	int	1.58†	Dec 1	1.525*	-	4.55*
DFS Furniture	fin	4.9	Dec 20	-	7.2	-
Englist Nat Pref	int	5.4	Dec 2	5	-	16.2
English Nat Defd	int	2.95	Dec 2	2.55	-	11.3
Exmoor Dual Inc	fin	2.3	Dec 7	2.75	9.05	10.55
Exmoor Dual Ord	fin	1.59	Dec 7	1.85	1.59	1.85
Harrington K'brd	int	nil	-	1.7	-	2.7
Havelock Europa	int	1	Dec 22	nil	-	2
Shires High Yd	int	1.2‡	Dec 30	1.1		5.05
Smiths Inds	fin	8.4	Jan 6	7.55	13	11.85
Warnford Invs	int	2.75	Apr 10	2.75	-	7.75

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Adjusted for scrip. ‡Third interim; makes 3.6p to date.

PEOPLE

Plumb to chair UK agricultural lender

The Agricultural Mortgage Corporation, the biggest long-term lender to Britain's farmers, has just acquired its third chairman in the last 18 months. Lord Plumb, 69, leader of the Tory MEPs in Strasbourg, has taken the helm of Britain's only specialised agricultural lender.

Lord Plumb, right, a former president of the National Farmers Union, takes over from Sir David Walker, following the latter's announcement that he is resigning as a deputy chairman of Lloyds Bank to become chairman of Morgan Stanley's European operations. Sir David had replaced Henry Lambert as chairman, following last year's acquisition of the AMC by Lloyds Bank.

The AMC, set up in 1928, had been owned by the Bank of England and the big London clearing banks prior to its acquisition by Lloyds. The bank is intent on expanding its new acquisition and has been strengthening its ties with the farming community.

Lord Plumb, who had been a director of Lloyds for 15 years, went on the board following last year's acquisition, joining Sir Simon Gourlay, another ex-president of the NFU, and Lord Selborne, who farms 2,500 acres in Hampshire and is the Government's chief adviser on nature conservation.

Lord Selborne, 54, managing director of the Blackmoor Estate and a trustee of the Royal Agricultural society, joined the AMC board in 1990 as the nominee of the Minister of Agriculture, Fisheries and

Food and the Secretary of State for Wales.

He was appointed a non-executive director of Lloyds Bank last July.

In the wake of Sir David Walker's departure, Lord Selborne has been appointed deputy chairman of AMC and Michael Thompson, a former deputy chief executive of Lloyds Bank, has also joined the board.

Sikorski scores at Proteus International

Jurek Sikorski, business development and marketing director at Proteus International, has been promoted to chief executive just five months after joining the biotechnology company.

The move follows the group's decision to accelerate the search for commercial applications for some of its 30 products under development.

Sikorsky, 43, is expected to use experience gained at Smith and Nephew – the healthcare group where he was international marketing director – to form more collaborative ventures with pharmaceutical companies, offseting the cost of bringing products to market.

Of those products, Proteus has high hopes for Adjuvant – its immune system booster for treating arthritis – and a new diagnostic test for Bovine Spongiform Encephalopathy, commonly known as mad cow disease, in live cattle.

Proteus is discussing development programmes for Adjuvant with nine pharmaceutical companies, while an animal health company is said to be interested in manufacturing and marketing the BSE test.

Kevin Gilmore, executive chairman, said Sikorski – son of a Polish immigrant and one-time professional footballer with Swindon Town – was "ideally placed" to push the products forward.

"Jurek will not only accelerate our development programmes but help us replace our entrepreneurial style with the kind of structured line management we now need," he added.

John Pool, Proteus's 60-year-old managing director, has been named deputy chairman but will continue to oversee the group's research and development arm.

GEC Alsthom: Bray to manage largest division

Kelvin Bray has been appointed managing director of GEC Alsthom's power generation division, created this month to allow the Anglo-French company to respond more effectively and rapidly to changes in the world market.

In his new role Bray, right, one of the best known names in Europe's gas turbine industry, is running by far the largest of GEC Alsthom's divisions, which the reorganisation has reduced in number from seven to five.

Consequential appointments remain to be made, although GEC Alsthom did say that Wilhelm Heitmann would continue running the boilers and environmental systems activities. Bernard Dufour, former head of the old electromechanical division, has left to join Snecma, the French state-owned aero-engine manufacturer.

Bray, 59, has spent more than 30 years in the gas turbine industry, and was appointed to the management board of GEC Alsthom in 1990.

Waterford Wedgwood

Waterford Wedgwood, the Irish group formed in 1986 by the merger of the crystal and china companies has appointed Roger Little, 51, to the board, in a new position of chief operating officer of the Wedgwood group.

Little joined from Unilever in 1987, as managing director of Waterford Wedgwood Australia, moving to the UK in 1992 as Wedgwood group sales director. Finance director Edward Jenner who was also brought in from Unilever, is appointed to the board of Waterford Wedgwood, reporting to Little.

In 1990 a consortium led by Tony O'Reilly, the Irish-born head of Heinz, took a 30 per cent stake, with O'Reilly becoming non executive chairman.

FINANCE MOVES

■ David Cockburn, formerly with Lehman Brothers, joins SALOMON BROTHERS as London director of investment banking, responsible for the energy sector. There are more than 150 directors worldwide; Cockburn's is not a board appointment.

■ Paul Loach, formerly md of Framlington Group, has been appointed md of GT MANAGEMENT EUROPE; he succeeds Peter Stevens, now corporate governance director of the BIL GT Group.

■ Michael Barker, formerly director of County NatWest Australia Investment Management, becomes marketing director of NATWEST Investment Management.

■ Peter Sellars becomes chief executive of the BARCLAYS Metals Group, part of BZW.

■ Sarah Bates has been promoted to md of INVESCO's investment trust division.

ACCOUNTING STANDARDS BOARD

David Allvey, group finance director of BAT Industries, is to be the new tenth member of the Accounting Standards Board, which sets financial reporting standards.

This appointment to the ASB increases the influence of industry and commerce on the board; other recent appointments to the ASB have given a voice to preparers, auditors and institutional users of accounts.

Allvey, 49, joined BAT in 1980, and is one of a three-person team responsible for the day-to-day running of the company. Originally a civil engineer, he later became a chartered accountant and a member of the Institute of Taxation. He worked with Price Waterhouse as a tax specialist before joining BAT.

COMMODITIES AND AGRICULTURE

Metals surge as nickel touches two-year high

By Kenneth Gooding, Mining Correspondent

Prices on the London Metal Exchange rose sharply yesterday, helped by renewed interest from investment funds and a weakening dollar which made metals look cheaper in other currencies.

Aluminium prices touched a fresh four-year high and nickel joined the party to go briefly to its highest level for two years before substantial profit-taking stopped the upward momentum. At the close, aluminium was up another US$9.25 a tonne at $1,741.50, copper had advanced by $51 to $2,539.50 while nickel was up $205 at $6,895 a tonne.

Nickel, used mainly for production of stainless steel, reached $6,950 at one stage, a 42 per cent rise from the $4,000 low point it touched last year, in spite of LME stocks standing at a record 150,000 tonnes or an estimated 11 weeks of consumption.

Analysts suggested that investment funds were anticipating strong demand for metals next year and helping to push up prices before increased consumption reduced stocks.

Mr Heinz Pariser of Heinz H Pariser Alloy Metals & Steel Market Research, said at an LME seminar last week that nickel consumption this year was likely to grow by 7.7 per cent and reach a record 740,000 tonnes. A "moderate" further increase of 2.7 per cent was forecast for 1995 followed by rise between 4 and 6 per cent in 1996 and 1997. This would create a 33,000-tonnes supply shortage in 1994 and one of 40,000 tonnes next year. Mr Pariser said nickel prices were likely to average $6,390 a tonne this year and $7,063 and $7,714 a tonne in 1996.

Watch out for the garlic

Alison Maitland on innovation in the UK food sector

Garlic growers of France, beware. Consumption of the pungent bulb in southern England has overtaken that of northern France, largely thanks to one enthusiastic grower on the Isle of Wight.

Mr Colin Boswell has turned his Mersley Farms into one of the biggest garlic producers in northern Europe in the 15 years since he diversified out of sweetcorn. Britain's first indigenous garlic grower, he is now the country's leading supplier of fresh and prepared garlic products.

His innovative approach – which includes his own brand of Smoked Garlic Butter – won him a national award for food marketing this week. British farmers are much criticised for failing to market their produce successfully, and the awards are designed to raise standards and help reduce the UK's food and drink trade deficit of nearly £6bn ($8bn).

"Mersley Farms is a clear example of a producer who has become simply the best in his field," said Mr Colin Smith, fresh produce trading director at Tesco, the supermarket group which sponsored the food awards. "Not only is Colin Boswell wholly committed to his exceptional product, but he has shown clear marketing expertise in creating a range of added-value garlic products."

Beating the French at their own game proved a winner for two other British producers. Mr Julian Temperley, owner of a large area of cider orchards in Somerset, wanted to add value to his product because of increasing competition in cider production. So he created the first commercially produced cider brandy in Britain for three centuries.

The Somerset Cider Brandy Company makes 15,000 bottles a year of Somerset Royal, which is similar to Normandy Calvados but has the distinctive flavour of Somerset apples.

Tuddenham Hall Foods of Suffolk decided there was a market for tender English asparagus that could be eaten from tip to base and they managed to double turnover of their pre-packed delicacy in two years.

Food buyers agree that British farm produce is of a high quality but complain they cannot always obtain the quantity they need when they need it.

Mr Mike Bunney of Adas, the government's agricultural advisory service which sponsored the awards, said: "Marketing is not strong among quite a chunk of the industry, who fail to differentiate their product from their competitors." But he added that more farmers and processors were tailoring their product to their customers' needs.

One Somerset meat producer, Peninsular Pigs, received an award for its successful collaboration with Marks & Spencer, supplying the retailer with all the fresh pork it sells.

"Peninsular Pigs had clearly thought very hard about their market, and, by talking to the retailer, spotted an opportunity for meat of a superior eating quality, reared outdoors under a strictly controlled, welfare-friendly system," said Mr Jeremy Finnis of the ministry of agriculture, which sponsored the award.

India cuts import duty on aluminium

By Kunal Bose in Calcutta

India's federal government has cut the import duty on aluminium to 10 per cent ad valorem from 25 per cent because primary aluminium consumption is rebounding strongly.

Domestic producers, although operating at a high level of capacity, are not able to fully meet the demand for the metal from fabricators and extruders.

According to industry officials, the rising price of aluminium on the London Metal Exchange was also behind the government's decision to lower the customs duty.

But even at the revised duty, the imported metal will cost more than locally produced aluminium. In recent months all domestic producers have raised their aluminium prices.

Last year India imported about 45,000 tonnes of aluminium, while domestic production was less than 500,000 tonnes. In the current year there has been a sharp rise in demand for aluminium from the automobile and electrical industry.

● India's state-owned National Aluminium Company (Nalco) is to cut alumina output by 10 per cent because of slack demand, Reuter reports from New Dehli.

In 1993-94 Nalco produced 753,000 tonnes of alumina and exported 372,000 tonnes. Nalco's annual alumina production capacity is 800,000 tonnes a year against world output of 40m tonnes.

An official said: "Nalco had targeted exports of 400,000 tonnes of alumina in 1994-95 but in the present scenaria the company might achieve exports of 370,000 tonnes. "Demand for alumina had fallen mainly because of moves by the world aluminium industry to deal with oversupply," he added.

Booker's salmon leap to the top

James Buxton and Roderick Oram on the UK group's latest acquisition

The decision by Booker, a UK food group, to buy the salmon farming operations of Marine Harvest International of the US makes Booker the biggest single salmon producer in the world. It is also a vote of confidence in an industry which has repeatedly fallen into crisis in the past few years.

No one is saying that the crises triggered by the sharply oscillating prices caused by the market dominance of Norway, the biggest salmon producing country in the world, will not recur. This year Norway's expected output of 220,000 tonnes will once again dwarf that of Scotland, the second biggest producer, which is expected to harvest 59,000 tonnes. Chile comes third with about 50,000 tonnes.

But the experience of the last few months gives some room for optimism. Only a year ago Scottish salmon farmers despaired as another unexpected surge of output by Norway pushed prices to their lowest level for several years. Yet, against the predictions of many experts, prices have recovered since April and a leading Norwegian salmon producer told a conference in Scotland this month that in 1994 salmon farmers would have their most profitable year for many years, despite the fact that prices are still below 1992 levels.

One reason is that in the past few years new vaccines have led to a sharp drop in losses caused mainly by the disease furunculosis. Mortality rates at McConnell Salmon, Booker's salmon subsidiary, fell from 12 per cent in 1990-91 to 5 per cent in 1993-94. Farmers have also invested in better production equipment and introduced more efficient methods of husbandry, producing bigger and better fish. The result is that the breakeven point for most salmon farmers has dropped substantially as UK consumption has risen by 22 per cent in the year ended June.

"We've looked into the abyss on price and disease, and believe we can still make money in salmon farming," Mr Charles Bowen, chief executive of Booker, said yesterday. "We project the average not the peaks of salmon prices and we assume salmon prices could fall." On that basis, Booker, he suggests, thinks it can still make money.

The takeover of Marine Harvest brings to Booker the biggest salmon producer in Scotland, pushing its share of Scottish salmon production from about 9 per cent to just under 25 per cent. With output from Chile thrown in, Booker will have about 7 per cent of the world market, with production of 26,000 tonnes of salmon a year out of world output of about 365,000 tonnes. The next largest producer is probably Hydro Seafood of Norway, part of Norsk Hydro.

Operations will be more efficient after the takeover. Booker will close Marine Harvest's heaquarters in New Jersey, and merge the two companies' research and development departments, saving about £3m a year.

The acquisition of Marine Harvest's salmon farming operation in Chile brings it a set of farms in a country which has the lowest production costs in the world, thanks to excellent water and growing conditions, and low labour costs. These benefits amount to a saving of 5p per pound off production costs which in Scotland are about £1 per lb.

The takeover also gives Booker access to the Japanese and US markets. But the cost advantage of producing in Chile is offset by the cost of transporting fish to the US market, making Chile overall only as competitive as US salmon producers.

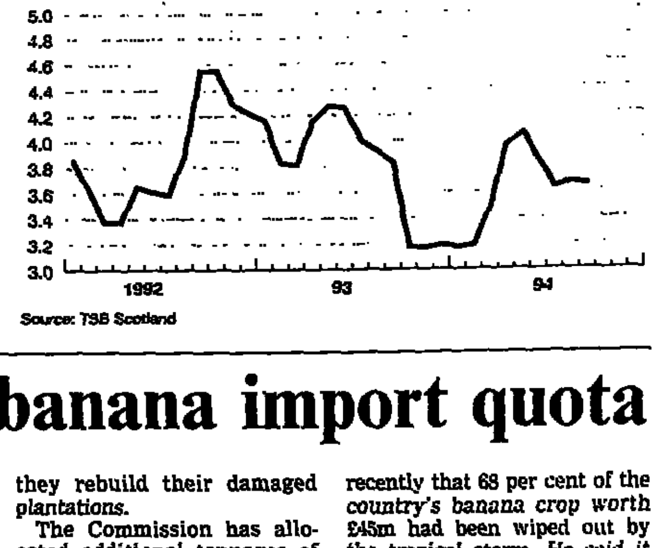
The resulting diversification of production and markets should mean that no more than 10 per cent of Booker's output could suffer a disease problem at any one time. In any event, salmon turnover will still be only about £100m, compared with the group's total of £3.5bn.

However, the danger of a future glut of salmon on the European market remains as Norway continues to push up output faster than Scotland. To prevent this, Booker has led a campaign to establish a system to regulate salmon output in Scotland, Norway and Ireland. Farmers would form producer groups and agree production quotas which they hope would maintain prices. But for the scheme to work their governments would have to permit the producer organisations to enforce controls on non-members, which the UK government rejects, saying it would harm the consumer.

Whatever the outcome, Booker believes that creating a Scottish-based company with about 25 per cent of production will help strengthen the industry as it comes under attack from Norway.

Scottish farmed salmon

Wholesale prices at Billingsgate, London (£ per Kg)



Source: TSB Scotland

EU proposes higher banana import quota

By Deborah Hargreaves

The European Commission has proposed a 53,400-tonne increase in its quota for banana imports from Latin America this year in order to assist the Windward Islands where agricultural areas were devastated by tropical storm Debbie in September.

Governments from the Windward Islands had asked if they could import bananas from other destinations while they are unable to fill their own import allocations.

This will enable them to maintain their market share in the European Union while they rebuild their damaged plantations.

The Commission has allocated additional tonnages of 30,000 tonnes to Martinique, 14,800 tonnes to St Lucia, 5,900 to Guadeloupe and 2,700 to Dominica.

Mr John Compton, prime minister of St Lucia, said recently that 68 per cent of the country's banana crop worth £45m had been wiped out by the tropical storm. He said it will take two years to repair the damage.

The increase in quota takes EU banana imports from Latin America to 2.171m tonnes this year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1720-21	1741-42
Previous	1713-14	1732-32.5
High/low	1730	1749/1737
AM Official	1729-30	1748.5-49.0
Kerb close		1741-2
Open int.	252,220	
Total daily turnover	50,960	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1700-10	1735-45
Previous	1700-10	1735-40
High/low		
AM Official	1710-17	1742-49
Kerb close		1735-40
Open int.	2,876	
Total daily turnover	321	

■ LEAD ($ per tonne)

Close	646-47	658-58.5
Previous	643.5-44.5	655-56
High/low	648/647.5	661/657
AM Official	647.5-48.0	658-59.5
Kerb close		658-9
Open int.	41,943	
Total daily turnover	6,961	

■ NICKEL ($ per tonne)

Close	6785-95	6890-900
Previous	6580-90	6685-95
High/low	6765	6950/6730
AM Official	6765-66	6870-75
Kerb close		6895-905
Open int.	63,565	
Total daily turnover	17,832	

■ TIN ($ per tonne)

Close	5490-90	5560-70
Previous	5390-400	5475-80
High/low		5590/5485
AM Official	5410-20	5495-5500
Kerb close		5570-80
Open int.	15,355	
Total daily turnover	5,214	

■ ZINC, special high grade ($ per tonne)

Close	1063-63.5	1083-83.5
Previous	1054-55	1074-75
High/low		1088/1075
AM Official	1065-66	1085-86
Kerb close		1086-87
Open int.	103,262	
Total daily turnover	32,610	

■ COPPER, grade A ($ per tonne)

Close	2542-43	2539-40
Previous	2485.5-86.5	2488-89
High/low	2517/2516	2558/2494
AM Official	2516-17	2515-15.5
Kerb close		2543-4
Open int.	207,918	
Total daily turnover	80,220	

■ LME AM Official £/$ rate: 1.6200
LME Closing £/$ rate: 1.6175

Spot:1.6179 3 mths:1.6163 6 mths:1.6134 9 mths:1.6098

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Oct	120.05	+2.90	120.20	118.40	1,497	239
Nov	119.00	+3.80	118.90	117.25	1,415	126
Dec	118.60	+4.00	118.85	115.80	38,591	5,024
Jan	118.00	+3.75	118.10	116.10	887	-
Feb	117.45	+3.55	117.70	115.70	504	-
Mar	116.90	+3.45	117.20	114.70	8,112	511
Total					62,412	6,012

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	390.80-391.20	
Opening	388.70-389.10	
Morning fix	389.00	240.361
Afternoon fix	391.10	241.390
Day's High	391.30-391.70	
Day's Low	389.00-389.40	
Previous close	389.30-389.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.54 6 months 4.93
2 months ....4.61 12 months 5.35
3 months 4.76

Silver Fix	p/troy oz.	US cts equiv.
Spot	330.55	533.50
3 months	335.55	543.05
6 months	340.60	550.25
1 year	353.05	567.45

Gold Coins	$ price	£ equiv.
Krugerrand	391-394	242-245
Maple Leaf	401.40-403.90	
New Sovereign	91-94	56-59

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open int	Vol.
Oct	390.1	+1.0	-	-	98	55
Nov	390.8	+1.0	-	-	-	-
Dec	392.3	+1.0	393.7	391.8	83,761	18,451
Feb	395.7	+1.0	396.9	395.8	19,149	1,348
Apr	399.2	+1.0	399.6	398.5	7,491	1,740
Jun	402.8	+1.0	403.8	403.0	10,291	1,681
Total					156,161	23,688

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Oct	422.5	+2.9	423.0	422.6	145	1
Jan	424.6	+2.9	425.9	421.7	18,377	1,257
Apr	428.8	+3.1	429.0	426.0	3,469	-
Jul	433.0	+2.9	430.5	430.5	744	330
Oct	436.6	+3.6	-	-	335	-
Jan	439.6	+3.6	-	-	2	-
Total					23,072	1,588

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Dec	156.90	+0.85	157.25	155.75	4,569	365
Mar	158.00	+0.95	158.50	157.00	1,528	6
Jun	159.15	+1.00	159.50	158.00	152	-
Total					6,249	371

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Oct	537.1	+2.4	-	-	41	40
Nov	538.4	+2.3	-	-	-	-
Dec	540.5	+2.3	545.0	538.5	80,443	11,635
Jan	543.1	+2.3	545.5	542.0	74	1
Mar	549.0	+2.3	553.5	547.5	14,875	454
May	555.1	+2.3	558.0	554.5	4,525	22
Total					113,408	12,616

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	17.38	+0.16	17.41	17.24	42,001	25,465
Dec	17.51	+0.16	17.55	17.37	98,929	36,080
Jan	17.56	+0.14	17.60	17.45	57,424	10,848
Feb	17.57	+0.15	17.57	17.43	28,539	4,994
Mar	17.57	+0.14	17.56	17.46	23,336	1,593
Apr	17.56	+0.12	17.56	17.56	17,486	1,709
Total					419,354	88,523

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Dec	16.28	+0.12	16.34	16.18	81,612	23,298
Jan	16.23	+0.10	16.29	16.16	27,481	6,754
Feb	16.18	+0.12	16.24	16.14	11,236	1,939
Mar	16.19	+0.11	16.19	16.16	8,073	848
Apr	16.06	-	-	-	3,616	530
May	16.07	-	-	-	2,373	139
Total					144,957	33,454

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	48.25	+0.87	48.30	47.45	23,969	8,134
Dec	48.90	+0.68	49.00	48.30	44,833	6,813
Jan	49.75	+0.68	49.75	49.10	31,752	3,241
Feb	50.25	+0.63	50.25	50.00	18,037	1,184
Mar	50.15	+0.68	50.10	49.90	11,494	1,025
Apr	49.75	+0.73	-	-	5,814	439
Total					186,703	22,570

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	150.50	+1.25	151.00	149.75	32,132	4,852
Dec	152.25	+0.75	153.00	152.00	25,525	3,825
Jan	154.00	+0.50	155.00	154.00	18,124	2,189
Feb	155.25	+0.25	156.25	155.00	7,046	590
Mar	155.25	-	156.00	155.00	6,753	378
Apr	153.50	-0.50	154.50	153.50	2,277	125
Total					100,427	12,289

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	1.638	+0.003	1.640	1.620	21,449	13,174
Dec	1.879	+0.001	1.885	1.860	29,711	7,410
Jan	2.029	+0.001	2.030	2.015	18,049	3,230
Feb	2.010	+0.009	2.010	1.995	13,514	1,302
Mar	1.970	+0.004	1.960	1.970	11,764	849
Apr	1.935	+0.002	1.340	1.933	7,141	520
Total					147,807	30,573

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	48.85	+0.03	4950	4875	17,304	12,954
Dec	56.30	-0.17	5705	5620	21,413	7,803
Jan	55.00	-0.05	5530	5500	12,393	2,439
Feb	54.40	-	5460	5430	6,453	1,259
Mar	54.75	+0.06	5480	5480	2,882	54
Apr	58.40	+0.15	-	-	4,868	76
Total					70,865	24,709

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	104.90	+0.30	104.90	104.60	1,456	2
Jan	106.90	+0.30	107.00	106.75	1,953	35
Mar	108.90	+0.30	110.75	108.90	1,536	25
May	110.85	+0.35	111.00	110.75	1,434	90
Jul	112.65	+0.65	-	-	200	-
Sep	96.40	-0.10	-	-	40	-
Total					6,627	182

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Dec	397/4	+2/6	398/4	391/0	42,530	22,347
Mar	408/4	+3/6	408/0	402/0	21,843	6,860
May	385/4	++3/2	386/0	380/4	3,696	1,180
Jul	351/4	+2/0	352/0	348/4	3,112	1,979
Sep	356/0	+3/0	356/0	352/4	226	3
Dec	364/0	+2/0	364/0	361/4	139	13
Total					77,552	32,382

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Dec	214/4	-0/4	214/6	214/0	123,306	20,604
Mar	225/4	-0/2	225/4	225/0	54,088	4,153
May	233/4	-0/2	233/4	233/0	24,097	1,278
Jul	239/0	-	239/0	238/0	27,485	1,844
Sep	243/6	-0/2	243/6	242/6	2,000	84
Dec	249/0	-	249/0	248/0	11,281	759
Total					243,002	28,782

■ BARLEY LCE (£ per tonne)

Nov	101.70	-0.20	101.90	101.70	385	9
Jan	104.45	-0.25	104.85	104.45	413	20
Mar	106.40	-0.30	-	-	130	-
May	108.40	-0.30	-	-	48	-
Sep	93.25	-1.75	-	-	2	-
Nov	95.50	+0.50	-	-	-	-
Total					976	29

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Nov	541/2	-3/4	543/6	540/4	62,856	22,553
Jan	553/0	-2/6	554/0	551/2	34,764	6,039
Mar	562/6	-2/2	564/0	561/4	20,186	2,465
May	570/2	-2/4	571/4	569/4	9,566	2,829
Jul	577/0	-3/0	578/2	576/0	16,017	2,035
Aug	580/0	-1/4	581/4	579/4	913	271
Total					151,158	36,486

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Oct	26.72	-0.04	26.76	26.45	2,021	1,329
Dec	25.13	-0.13	25.20	24.96	31,909	14,028
Jan	24.42	-0.10	24.48	24.28	12,815	2,448
Mar	23.99	-0.05	24.08	23.85	13,206	2,061
May	23.70	-0.02	23.78	23.50	10,234	2,052
Jul	23.48	-0.06	23.58	23.40	7,241	1,914
Total					83,068	24,120

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Oct	164.1	-1.1	164.9	163.7	1,038	1,165
Dec	163.6	-1.2	163.9	162.9	43,950	6,313
Jan	164.4	-1.2	165.5	164.3	16,835	1,596
Mar	167.4	-1.1	168.5	167.4	13,519	1,186
May	170.3	-1.3	171.4	170.3	7,700	1,719
Jul	174.1	-0.9	174.8	174.0	6,799	970
Total					94,438	13,534

■ POTATOES LCE (£/tonne)

Nov	150.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	215.8	-4.7	220.0	215.8	1,335	55
May	240.0	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					1,335	55

■ FREIGHT (BIFFEX) LCE ($10/Index point)

Oct	1865	-10	1875	1845	510	31
Nov	1833	-17	1845	1830	271	27
Dec	1778	-32	1800	1770	205	59
Jan	1735	+5	1740	1882	1,099	81
Apr	1674	+3	1675	1640	896	101
Jul	1495	+5	-	-	149	-
Total					3,147	299

	Close	Prev
BFI	1847	1845

Cotton
Liverpool- No spot or shipment sales were recorded the week ended October 14 against 185 tonnes in the previous week. Activity was severely restrained and business was on narrow lines. Cost of raw cotton deterred users from increasing their purchases.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	941	+2	944	932	22,010	1,081
Mar	973	+2	975	962	41,762	1,535
May	982	-	987	973	14,392	309
Jul	995	-1	995	993	6,163	31
Sep	1009	-	1014	1005	12,051	290
Dec	1027	-	1034	1025	8,334	128
Total					109,924	3,374

■ COCOA CSCE (10 tonnes; $/tonnes)

Dec	1304	+8	1308	1285	30,916	2,428
Mar	1351	+6	1355	1332	21,405	908
May	1379	+4	1383	1362	7,998	232
Jul	1406	+2	-	-	3,024	2
Sep	1433	-	-	-	1,333	-
Dec	1463	-3	-	-	4,968	3
Total					73,737	3,577

■ COCOA (ICCO) (SDR's/tonne)

Oct 18	Price	Prev. day
Daily	971.18	972.17

■ COFFEE LCE ($/tonne)

Nov	3765	+72	3780	3540	7,404	1,818
Jan	3743	+80	3750	3517	12,692	3,423
Mar	3663	+67	3663	3460	8,151	1,001
May	3640	-73	3640	3460	2,691	179
Jul	3580	-	-	-	1,330	-
Sep	3540	-	-	-	1,403	-
Total					33,673	6,419

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Dec	201.60	+6.70	206.25	190.10	14,499	5,068
Mar	206.20	+6.50	217.00	194.50	11,628	1,706
May	208.00	+6.00	208.00	197.00	4,619	118
Jul	209.10	+6.00	199.20	199.00	1,535	53
Sep	209.75	+6.00	209.75	203.75	859	22
Dec	210.50	+6.00	203.00	203.00	856	8
Total					34,297	6,985

■ COFFEE (ICO) (US cents/pound)

Oct 18	Price	Prev. day
Comp. daily	186.38	185.25
15 day average	189.43	190.68

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jan	11.82	-	-	-	-	-
Mar	12.95	+0.07	-	-	90	-
May	13.00	+0.10	-	-	-	-
Jul	12.95	+0.08	-	-	450	-
Total					540	-

■ WHITE SUGAR LCE ($/tonne)

Dec	347.00	+3.00	348.50	345.00	3,401	345
Mar	340.50	+2.00	341.50	337.10	8,401	552
May	339.20	+1.50	340.00	336.10	1,960	143
Aug	337.10	+1.80	338.30	334.00	2,310	323
Oct	316.50	-0.20	317.00	315.20	480	270
Dec	315.40	-0.20	-	-	4	-
Total					16,556	1,573

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Mar	12.79	+0.07	12.86	12.62	92,561	9,527
May	12.80	+0.10	12.85	12.65	21,909	1,931
Jul	12.69	+0.09	12.75	12.60	13,292	1,203
Oct	12.40	+0.06	12.44	12.30	11,240	818
Mar	12.02	+0.06	12.07	11.97	1,560	37
May	12.02	+0.06	-	-	9	-
Total					140,576	13,518

■ COTTON NYCE (50,000lbs; cents/lbs)

Dec	68.28	-1.64	69.90	68.25	24,399	6,305
Mar	69.93	-1.35	71.11	69.91	12,449	841
May	71.15	-1.18	72.25	71.10	6,873	377
Jul	71.85	-1.20	72.80	71.80	4,143	97
Oct	68.85	-0.90	69.30	69.30	523	7
Dec	68.35	-1.04	69.25	68.35	2,177	138
Total					50,307	7,735

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Nov	106.40	+1.30	107.00	105.05	5,738	1,411
Jan	110.25	+1.45	110.75	108.60	9,523	3,616
Mar	113.35	+1.35	113.75	111.85	5,210	358
May	116.40	+1.15	116.40	115.25	1,369	31
Jul	119.40	+0.95	118.25	118.25	788	13
Sep	122.25	+1.05	121.75	121.50	360	12
Total					24,350	6,260

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 19	Oct 18	month ago	year ago
2073.1	2080.4	2122.2	1586.9

■ CRB Futures (Base: 1967=100)

Oct 18	Oct 17	month ago	year ago
229.72	229.86	230.97	218.17

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	67.450	+0.675	67.550	67.100	1,874	2,345
Dec	69.300	+0.900	69.350	68.650	30,371	8,981
Feb	68.150	+0.675	68.250	67.650	16,925	1,489
Apr	68.200	+0.525	68.275	67.725	11,963	1,152
Jun	64.900	+0.375	65.000	64.525	3,196	218
Aug	64.025	+0.250	64.100	63.900	1,371	41
Total					66,926	14,240

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Oct	30.425	+0.175	31.000	30.250	571	389
Dec	33.700	+0.275	34.150	33.600	17,716	3,064
Feb	36.550	+0.450	36.800	36.300	6,917	1,051
Apr	36.650	+0.400	36.900	36.525	3,916	558
Jun	42.375	+0.575	42.400	41.800	1,693	201
Aug	41.700	+0.250	41.750	41.550	317	41
Total					31,870	5,400

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Feb	39.775	+1.325	40.250	38.950	8,000	2,102
Mar	39.825	+1.200	40.200	39.000	1,026	249
May	40.600	+1.000	41.150	40.200	293	53
Jul	41.700	+1.200	41.900	41.150	277	43
Aug	40.500	+1.000	40.500	40.500	61	3
Total					10,857	2,450

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1675	88	119	25	50
1700	72	105	34	60
1725	58	92	45	71
■ COPPER (Grade A) LME	Dec	Mar	Dec	Mar
2450	128	146	31	70
2600	95	118	48	92
2550	69	95	71	118
■ COFFEE LCE	Nov	Jan	Nov	Jan
3550	226	374	11	181
3600	183	346	18	203
3650	145	319	30	226
■ COCOA LCE	Dec	Mar	Dec	Mar
925	34	84	18	36
950	22	70	31	47
975	13	57	47	59
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1600	-	55	1	31
1650	1	30	4	58
1700	3	21	-	90

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec)

		+or-
Dubai	$15.00-5.05z	+0.050
Brent Blend (dated)	$16.28-6.32	+0.120
Brent Blend (Dec)	$16.24-6.26z	+0.060
W.T.I. (1pm est)	$17.43-7.44z	+0.020

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$176-179	+1
Gas Oil	$151-152	+1
Heavy Fuel Oil	$92-94	+1
Naphtha	$172-173	+1
Jet fuel	$173-175	+1
Diesel	$156-158	+1.5

Petroleum Argus. Tel. London (071) 359 8792

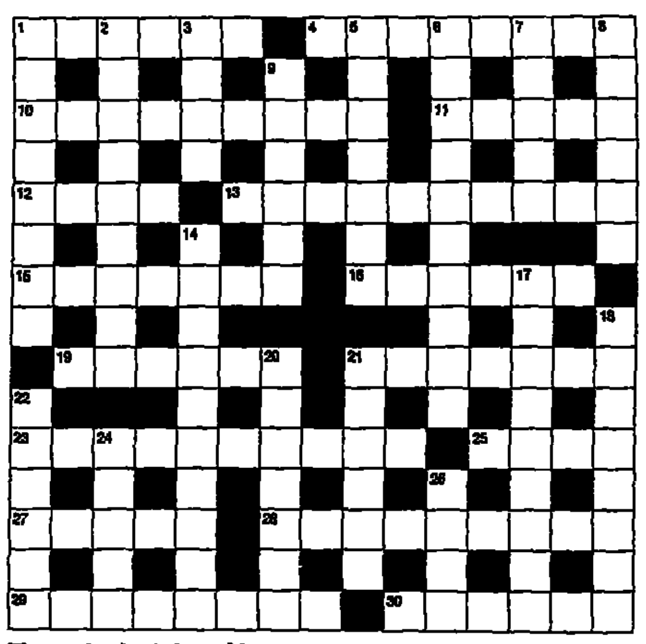
■ OTHER

Gold (per troy oz)♣	$391.00	+1.50
Silver (per troy oz)♣	541.50c	+3.00
Platinum (per troy oz.)	$418.70	+0.45
Palladium (per troy oz.)	$154.75	
Copper (US prod.)	121.0c	
Lead (US prod.)	39.15c	
Tin (Kuala Lumpur)	13.70c	+0.02
Tin (New York)	256.5c	+3.0
Cattle (live weight)†	116.20p	+0.71*
Sheep (live weight)†♠	92.26p	+2.61*
Pigs (live weight)	75.43p	-0.51*
Lon. day sugar (raw)	$316.0	-2.6
Lon. day sugar (wte)	$353.0	+0.5
Tate & Lyle export	£309.0	-2.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	$132.0y	
Wheat (US Dark North)	£165.0u	
Rubber (Nov)♥	90.25p	-0.75
Rubber (Dec)♥	89.75p	-0.75
Rubber (KL RSS No1 Jul)	351.5	
Coconut Oil (Phil)§	$617.5u	-6.0
Palm Oil (Malay.)§	$625.0t	-5.0
Copra (Phil)§	$400.0v	
Soyabeans (US)	£157.0v	+1.0
Cotton Outlook'A' index	74.16c	+0.56
Wooltops (64s Super)	438p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Oct/Dec. v Nov/Dec. u Oct/Nov. z Dec. t Nov. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week ⊕ Prices are for previous day.

CROSSWORD

No. 8,589 Set by QUARK



The unclued 4 (when old), 11, 12, 23 and 27/30 across and 2 down form a well-known group

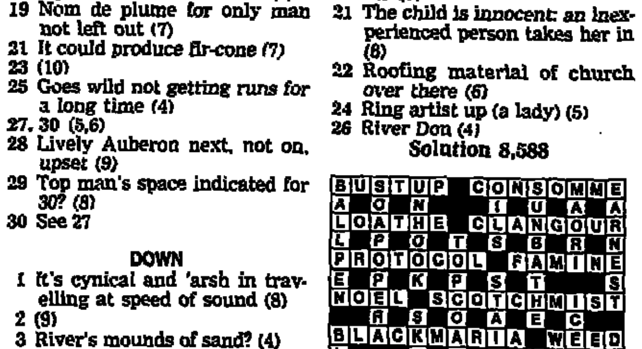
ACROSS

1 Hustle around the detective (6)
4 (8)
10 Rude, we hear, and felt sorry (9)
11 (5)
12 (4)
13 He arranges the sheets between the covers (10)
15 One kept in – in winter, needless to say (7)
16 Agile doctor seen in river (6)
19 Nom de plume for only man not left out (7)
21 It could produce fir-cone (7)
23 (10)
25 Goes wild not getting runs for a long time (4)
27, 30 (5,6)
28 Lively Auberon next, not on, upset (9)
29 Top man's space indicated for 30? (8)
30 See 27

DOWN

1 It's cynical and 'arsh in travelling at speed of sound (8)
2 (9)
3 River's mounds of sand? (4)
5 Risked crude name for N. American Indian (7)
6 Accomplished performance? (10)
7 Rowing boats are struck with fear, it's said (5)
8 Abandon the uncultivated area (6)
9 Seen in boat-race or cricket match (5)
14 It's kind of set but it's moveable (10)
17 One of the troops seen at the beach? (4,5)
18 Kite gets confused for French working girl (8)
19 Something attractive and round is the electric generator (7)
21 The child is innocent: an inexperienced person takes her in (6)
22 Roofing material of church over there (6)
24 Ring artist up (a lady) (5)
26 River Don (4)

Solution 8,588



JOTTER PAD

FINANCIAL TIMES SURVEY

UK Gas: the competitive era

Thursday October 20 1994

Ten months have passed since the government gave the go-ahead for the planned liberalisation of the UK gas market, the fifth largest in the world and one of the fastest growing. But the subject has continued to spark off intense debate among industry executives, politicians and consumer groups.

Last December, Michael Heseltine, trade and industry secretary, brushed aside warnings from the Monopolies and Mergers Commission and approved a fast-track timetable for the full opening of the domestic gas market in 1998.

It was high time, he said, that the 18m household consumers now served by British Gas had a choice of supplier.

Officials from Ofgas, the industry regulator, spoke of a future in which a multitude of suppliers would emerge. Supermarket and department store chains, as well as credit card companies, might vie against the gas subsidiaries of leading oil companies and regional electricity companies for a share in the market.

But by the summer, the brave new competitive gas world envisioned by the government and Ofgas was fast falling apart. The idea that millions of consumers (and voters) would soon be counting the cash saved as a result of introducing competition gave way to front page scare stories. "Eight million face gas price hikes," screamed the headlines.

Ofgas fought a rearguard action to contain the damage, claiming that the end of uniform national prices would lead to only minor regional variations. It also gave assurances that the elderly and disabled would not suffer as a result of the introduction of competition.

But the government's refusal to make a commitment to include a new Gas Act in this year's legislative programme merely added to the uncertainty.

To many in the industry it looked as if government ministers had decided that gas competition was just too risky a project to embark upon so close to an election.

Paying the bills: whether or not gas deregulation will mean higher prices is a subject of debate

British Gas exploration: the company is undergoing an extensive programme of restructuring

Support for liberalisation gathers pace

Although political uncertainties continue to surround the planned opening of the UK gas market, Robert Corzine finds there is a growing belief that competition can be made to work

Many now believe those dark days of summer have passed. In recent months support for liberalisation has gathered pace.

British Gas now says it welcomes competition, and wants to see a new gas bill passed this year so that it has maximum freedom to restructure its businesses.

Consumer associations say that they, too, want competition. Even the opposition Labour Party has said that it does not want to defend British Gas's monopoly.

Although the government remains non-committal about whether gas will be included in the Queen's Speech in mid-November, there is growing confidence that some form of gas bill or government statement of support may be in the offing.

But not all of the uncertainties raised during the summer have been swept away with the change of season. The concerns raised in recent months were enough to cause the Trade and Industry Select Committee of the House of Commons to focus its current round of hearings on gas liberalisation.

Many of British Gas's would-be competitors are confident that the hearings will merely confirm that competition with adequate safeguards is the best way forward. But there is no certainty that competition will deliver the substantially lower prices and higher standards of service its proponents argue are attainable.

Clare Spottiswoode, director general of Ofgas, is optimistic that gas deregulation will not mean higher prices, as some critics have contended. "I don't see that anyone will lose as a result of competition," she says.

However, she admits that this is a "leap of faith" on her part because there is no evidence from other countries to support her view.

Indeed, it is the fact that no other large western industrialised country has embarked on a similar path which worries some of those charged with implementing the complex structural and technical changes in the industry required to make competition work.

British Gas, for example, has asked for at least a six-month delay in the first phase of competition beginning in 1996. Executives at its TransCo pipeline subsidiary describe the current timetable as a "high risk strategy". They want more time to ensure that the new market-based mechanisms to balance the inflow and consumption of gas actually work.

Heseltine: time to give the household consumer a choice of supplier

But even though uncertainties persist, the limited competition introduced so far and the prospect of a much more open market in the future have triggered dramatic changes within the UK gas industry.

British Gas is undergoing a root-and-branch restructuring, one of the largest ever attempted in the UK, according to its executives. Within three years 25,000 jobs, a third of its workforce, will be gone and thousands of regional and district offices and high street retail shops will be closed.

Senior management has also launched a cultural revolution to turn what has been one of the UK's most bureaucratic and hierarchical companies into one which Richard Giordano, chairman, says will be "more dynamic and commercially astute".

Change is also the order of the day for the independent gas marketing companies which have blossomed in recent years in response to regulatory actions to promote limited competition in the mainly commercial and industrial markets.

The independents, with low overheads, have easily undercut prices charged by British Gas, which until recently was barred by the regulator from offering discounts. They quickly captured 55 per cent of the mainly commercial market over 2,500 therms a year.

But during the past year, intense competition has broken out among the independents, with the result that margins have narrowed dramatically. There are unlikely to be any early improvements, as Ofgas has recently lifted many of the temporary restraints it had imposed on British Gas to ensure that competition took hold.

The harsh operating environment is such that most independents predict it will lead to a wave of rationalisation over the next two years. Many independents are subsidiaries of large international oil and gas companies, and thus should be able to ride out the hard times. Financially weaker companies may have to merge or seek market niches to survive.

But in spite of the problems and upheavals affecting the industry, there is a growing belief that competition can be made to work if the final political go-ahead is given. Ms Spottiswoode is among the optimists.

"When we started work on this we thought there were a lot of contentious issues. But there are not really that many. The real problem is the legislative timetable."

UK GAS MARKET 2

Robert Corzine finds British Gas in an aggressively confident mood

Facing commercial reality

Last month British Gas topped off a turbulent year by unveiling a much-delayed presentation on its strategy to the end of the decade and beyond.

Gone, according Richard Giordano, chairman, was the old British Gas, a public utility whose "mindset was driven first and foremost by the obligation to serve... at any cost if necessary".

In its place will come a new British Gas, a "dynamic and commercially astute" company which will dramatically restructure its domestic businesses over the next few years. This should ensure sufficient cash flow to fund a big international expansion which will begin to pay off in the next century.

Gone too, says Mr Giordano, will be a corporate culture determined to "fight dogged regulatory battles to defend a proud past".

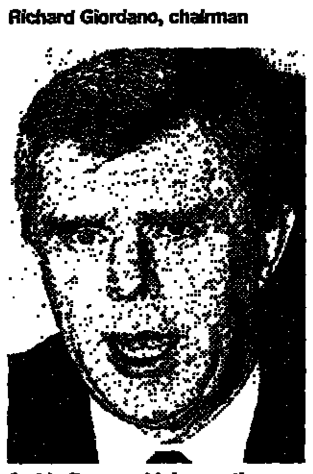
For British Gas's would-be competitors in the UK gas market, Mr Giordano's statement and similar comments from Cedric Brown, chief executive, offered a reassurance that Europe's 13th largest company would no longer stand in the way of the introduction of domestic competition.

But the comments also contained an implied threat that British Gas would not idly stand by and see its domestic market share eroded, as has happened under regulatory pressure in the liberalised market for large commercial and industrial users.

Last month's presentation also offered evidence that the "strategic paralysis" that gripped British Gas in recent years as senior management fought pitched battles with its regulator, has receded, along with what Mr Giordano described as the "regulatory fog". The result is that the company has been confident enough to map out a coherent way forward.

What is less clear, however, is how successful it will be in

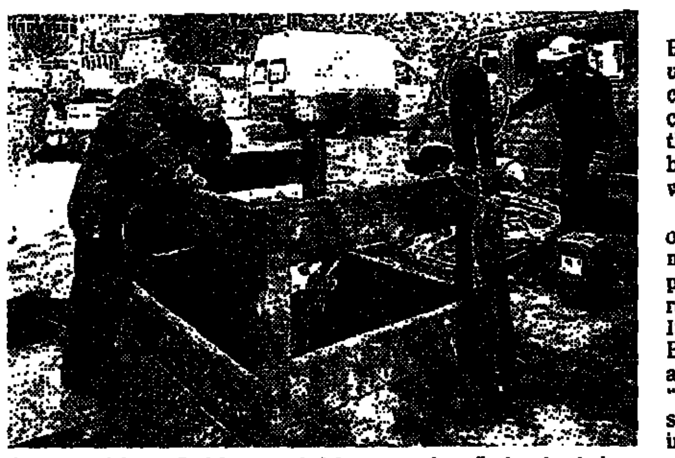

Richard Giordano, chairman


Cedric Brown, chief executive

implementing such a radical realignment.

There is little doubt that senior management is determined to overturn the corporate culture of a long-standing monopoly. A root-and-branch restructuring of the company means that 25,000 employees – a third of the workforce – will be made redundant over the next three years.

Employee morale, aside from


Redundant labour? British gas technicians at work: radical restructuring of the company means that 25,000 employees, a third of the workforce, will be made redundant over the next three years

the handful of executives and managers who know they will have a job after the re-structuring, is low. Some employees say management has been surprised by the large number of highly-skilled individuals who intend to accept voluntary redundancy, rather than subject themselves to further uncertainty.

For most of those who do undergo and survive the current programme of having to re-apply for their jobs, there will no longer be the prospect of a job for life in the highly hierarchical, command and control environment of the old British Gas. In the coming months thousands of employees, especially those in the public gas supply division that deals directly with the public, will undergo extensive training sessions to prepare them for a commercial environment.

In addition, the five domestic divisions will be recruiting people with marketing experience outside the gas industry to help ensure that a commercial culture takes hold.

Mr Brown was adamant at the strategy review that "there are no sacred cows at British Gas". The managing directors at each of the business units know they must "transform" their companies to suit the new commercial realities, or face a fate that senior executives have not spelled out, but which industry observers say is the threat of divestment.

Speculation is most intense about the future of the public gas supply, the unit which provides 18m households with gas and which will face the brunt of the competition once the domestic market is opened.

Mike Alexander, PGS managing director, says he is preparing the division for an extended period of uncertainty. The intense competition his division is likely to encounter when the domestic market is fully opened in 1998 means PGS staff numbers, set to fall from 11,300 currently to 9,600 by 1996, may face even deeper cuts.

The present Gas Act forbids British Gas from divesting the unit, but Mr Brown made it clear that month that if the company's competitors have the right to restructure their businesses, "then so should we".

The outlook for other parts of the company is generally more upbeat. TransCo, the pipeline and storage division remains a regulated monopoly. It is the main repository of British Gas' technical skills and assets. It will also be the "main cash generator in the short to medium term", according to Mr Brown.

The exploration and production arm of the company has a steeply rising UK production profile that will support the growth of corporate cash flow to the year 2000. The UK operation will also help to underwrite the company's growing efforts to discover and develop mainly gas reserves in other countries.

Many of the those upstream developments will be linked to downstream ventures in which British Gas intends to apply its UK skills and experience to gas distribution or gas-fired power generation schemes worldwide. Many of these will be in fast-growing developing economies, especially in Latin America and Asia, according to company executives.

The company expects such international activities to be the main engine of growth in the early years of the next century.

But as the company's top executives acknowledged last month, the success of the long-term strategy is dependent on the company being competitive and profitable in its fast-changing UK markets for the foreseeable future.


A gas showroom in north London: transportation costs account for about half of the total gas bill paid by residential consumers
Ashley Ashwood

Robert Corzine on TransCo and the independents

Fixing the cracks

Engineers at British Gas's national transmission system control centre at Hinkley in the Midlands can tell you exactly what they were doing on February 14 1994. For on that day a cold snap triggered off a record surge in demand for natural gas.

By the end of the day TransCo, British Gas's transportation and storage division, had carried a record 355.25m cubic metres of gas, compared with a daily average of just 168.1mcm.

The engineers say the fact that they were able to cope with such a strong surge in demand testifies to the wisdom of years of heavy investment in a transport and distribution system that Richard Giordano, British Gas chairman, recently called the "biggest and best in the world". Critics, however, say it is over-engineered and over-built.

The creation of Solihull-based TransCo, whose assets are valued at £17bn, stems from British Gas's decision last March to split the UK business into five domestic divisions. It will retain its status as a national monopoly under the government's liberalisation plan, and is the clear core activity of British Gas's UK operations.

It will also play a central role in the introduction of competition in the domestic market. All of the independent marketers as well as British Gas's public gas supply division will use its pipelines to distribute gas to the 18m or so household customers.

Transportation costs account for about half of the total bill paid by residential consumers. So the degree to which TransCo cuts its cost base over the next few years will have a big effect on the extent to which domestic gas prices might fall with the onset of competition.

Harry Moulson, TransCo's managing director, and his staff of senior executives say they are determined to build an efficient, commercially-driven organisation which is responsive to the needs of its growing list of customers.

But relations between it and the independents operating in the commercial and industrial markets already opened to competition have not always been smooth.

Last year a number of disputes arose over the slow pace at which TransCo provided billing information to the independents. Mr Moulson attributes the problems to the unexpected speed at which independents took market

Some TransCo staff may eventually be stationed in the offices of the independents to ensure a speedier service

share away from British Gas's trading arm.

"We believed there would be 3,000-10,000 supply points [for the independents]," he said. "Now there are 120,000, and we've had to keep it together through fire-fighting." Shortcomings in the current computer system added to the frustration felt by shippers.

TransCo has since designated senior account managers to try to alleviate the tensions. Les Dawson, one of the managers, says: "Twelve to 15 months ago most shippers said they had difficulties dealing with us. Now its just a handful".

Trust has developed slowly, but some companies are now providing TransCo with details of future business plans. There have even been instances when TransCo executives accompanied the independents on sales presentations to potential customers, a development which would have been unheard of only last year. In addition some TransCo staff may eventually be stationed in the offices of the independents to ensure a speedier service.

Mr Moulson says TransCo's new commercial outlook means that it would even consider joint ventures on future pipeline projects.

A document spelling out the main elements of the future relationship between TransCo and its customers is currently under consideration. The Network Code will define in detail the commercial and operating regime which will underpin a competitive market.

David Dewar, TransCo's development director, admits that the atmosphere during early meetings on the code was "pretty dire". He believes there has been a "dramatic" improvement in recent months, although he worries that the present political impasse could undermine the commitment of some independents to taking part in what is inevitably a time-consuming and highly technical process.

There are still many issues, however, on which TransCo and the independents disagree. At present shippers do not have to supply to TransCo on a daily basis the gas their customers consume. But the present system of monthly balancing means that TransCo is "physically and financially" subsidising them, according to Mr Dewar.

The biggest disagreement, however, concerns the valuation of TransCo's assets. Ofgas, the industry regulator, agreed to put off until 1997 a root-and-branch revaluation because of the pressing need to separate TransCo's activities from British Gas's trading arms, and to prepare the company for competition.

The independents say a lower valuation could pave the way for substantially lower transportation charges, and hence lower domestic prices.

TransCo officials say such demands should be treated with caution, given the constant need to renew and reinforce the network to prepare for future growth, and for the cold winter days which could be just around the corner.

Deborah Hargreaves on creating a UK spot market

Trading approaches

The prospect of almost half of the UK's daily gas supply requirements being turned over on a traded market or even the introduction of a gas futures contract is still some way from reality in Britain. But this is just what happened in the US where gas supply was deregulated just over 10 years ago. Now, shippers are confident they can turn to a well-established spot market for daily sales and purchases.

Ofgas, the gas industry regulator, is keen to see the creation of an efficient spot market in the UK to assist the development of competition when British Gas's monopoly over household supply is abolished in 1996.

Earlier this month, the regulator published a discussion document on a spot market, calling for views from the industry by early November on what steps should be taken to set it up.

"In order to secure the successful introduction of sustainable competition in gas supply, a daily market for gas has to evolve which is fully effective and efficient," said Mark Higson, director of network operations at Ofgas. "We want participants to tell us the type of market that they would like to see evolve and what steps should be taken to develop a market."

The need to establish a spot market arises from the daily balancing requirements of the gas supply network. Once British Gas's monopoly over household supply is removed in April 1996, many of the independent shippers will be pumping gas into homes through the company's pipelines network which is run by its TransCo division.

These shippers will be required to balance their customer requirements on a daily basis – matching supply and demand which can fluctuate wildly, for example, when the weather turns suddenly colder.

The debate over a spot market centres around how sophisticated this balancing system should be – whether it should be just that: a way to square up companies' needs on a daily basis or a fully-fledged marketplace with posted bids and offers for gas.

In its discussion document, Ofgas has laid out proposals by British Gas for a balancing system as well as a model for gas trading developed by the gas

British Gas is eager to see the development of some sort of marketplace in order to encourage competition

supply arms of two regional electricity companies: Eastern Natural Gas and Manweb Gas with Morgan Stanley, the investment bank, among other suggestions.

The regulator wants to answer several questions surrounding spot sales and purchases.

For example, it asks whether deliberate attempts should be made to create a "liquid and transparent on-the-day operational gas market", or whether the market should be left to evolve without such intervention.

The document also asks the industry: "Is it necessary or desirable to take a view now on whether or not to proceed with a deeper market or can that wait until later?"

British Gas is eager to see the development of some sort of marketplace in order to encourage competition. The company needs a flexibility mechanism to balance the network – but this doesn't have to be a spot market. "It's important for us to have something that moves us forward," one official said.

But some independent industry players are sceptical about the view that a marketplace can be imposed on gas trading, and many believe that spot sales and purchases should be left to develop organically into a larger market.

"There is a certain amount of trading that goes on now at the gas terminals: more of this is on a daily basis in winter," said Roger Turner, managing director at Utilicorp UK. "When the need for daily balancing comes in, the commercial and market pressures for daily trading will increase and spot markets will develop in their own time."

Mr Turner believes that spot markets will develop at the gas hubs where supply from the North Sea is brought on shore rather than in a central marketplace.

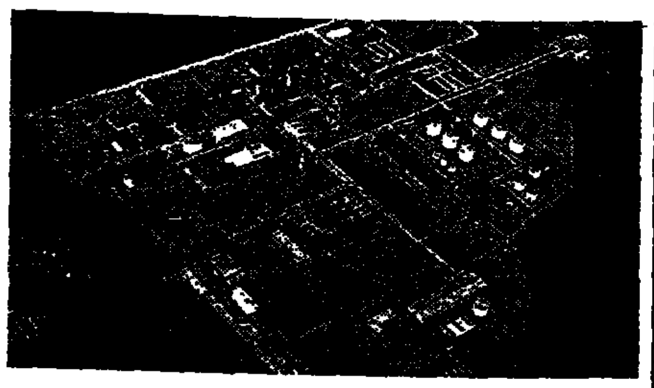
This means that daily trading will be closely linked to the physical market supply. Some sort of clearing house or market agent may need to be provided by a separate company such as an investment bank.

"I'm sure that after a year or two, we'll all have screens on our desks with daily and more long-term prices quoted from the terminals around the country," he said.

Since the government has not yet produced legislation to open up the household supply market, some independent operators believe that it may be too soon to be deciding the details of how the market may work.

Alan Marshall, managing director at Agas, believes a spot market will develop if there is a real need for one.

Continued on page 3



The Conoco-operated gas terminal, Lincolnshire: PowerGen formed a joint venture, Kinetica, with Conoco in 1990

The regional electricity companies

Operations to be combined

All 14 electricity distribution companies on mainland Britain and PowerGen and National Power, the generation companies, proudly boast their own gas supply arms. Some will undoubtedly make a success of them.

But it is highly unlikely that all 16 companies will still be involved in what is certain to be a fiercely competitive market by the end of the decade. A few are expected to withdraw within the next year or so, particularly if the government delays full competition in gas beyond 1998.

Few, if any, companies are likely to lose large sums of money since setting up gas trading teams, often of half a dozen people or less, has not entailed significant investment. But companies which withdraw will have to explain why a diversification that seemed too attractive to miss two years ago has failed to deliver its promise.

The initial attractions were plain enough. The recent regulatory review of the regional companies distribution businesses underlined the perceived need from the City and elsewhere for power companies to develop a range of businesses which can make money in competitive and therefore unregulated markets.

The gas supply business has proved a lure because of its similarities and potential synergies with electricity

The companies certainly have the means to be able to diversify. All the regional distributors and the generators either have cash surpluses or low borrowings. The problem for them is to do so without arousing doubts among investors about whether they are capable of managing the non-power businesses they grow or acquire.

The gas supply business has proved a lure because of its similarities and potential synergies with electricity.

The regional companies have long experience of operating in a low margin trading business and have developed energy trading expertise which can be used in supplying gas.

In many cases, the customers to whom they sell gas will be the same as those who buy their power. Electricity companies can make use of their brand name and the knowledge they have of the customers to improve their marketing. Some have merged their gas and electricity sales teams. Billing systems can be merged and, as technology develops, metering equipment can be shared.

There are also synergies with companies' generation arms. S.G. Warburg Securities regional electricity companies with gas-fired generation – that is all of them except Manweb – should be able to "swing" between gas generation and gas supply.

This, it says, should reduce the risk of over-contracting and potentially increase operating margins as a result of seasonal demand.

Kleinwort Benson makes a similar point about National Power and PowerGen in a recent research document. "By developing a gas marketing business and a combined heat and power operations, which uses gas to drive operations, a generator has three alternative sources for any gas it buys including its own gas-fired power stations. This enables it selectively to target its supplies of gas, attaining the highest margins possible."

PowerGen was one of the first electricity companies to enter the competitive gas market after setting up a joint venture, Kinetica, with Conoco in 1990. In 1993-4, Kinetica, contributed £8m to PowerGen's pre-tax profits on sales of £130m.

Among the distribution companies, Midlands Electricity was the first to move into gas marketing in August 1991. It has a 75:25 joint venture, Midlands Gas, with Utilicorp and is generally considered to be one of the strongest emerging players in the market.

Utilicorp also has joint ventures with Norweb, Scottish Power, Seeboard, Sweb and Eastern. Northern Gas, the Norweb joint venture, recently announced plans to set up a national gas marketing company.

Total is among other overseas companies involved with regional electricity companies; it has joint ventures with London and Yorkshire. Marathon Oil & Gas has a joint venture with Hydro-Electric.

The companies with most commitment to gas are those which have gone upstream. This summer Eastern Electricity bought a 6 per cent stake in the Johnson North Sea oil field, having previously agreed to buy its entire output.

Northern Electric, the last regional electricity company to move into gas supply, created an upstream gas venture with Neste of Finland and has a stake in the Victor field. Yorkshire has 7 per cent of the Armada gas field, which it bought for £27m from Amerada Hess.

The aim of those companies moving upstream is to develop integrated gas businesses.

Analysts believe that if the going gets tough these companies will be the last to pull out of gas supply simply because they will have to find other markets in which to sell the gas they are producing.

Most believe that the going will get tough. Kevin Lapwood, analyst at Smith New Court, says the regional electricity companies' gas businesses have not lived up to expectations.

"When the market first opened up it was money for old rope, because British Gas was under pressure to give up market share," says Mr Lapwood. "But as the market opened up further the competition got tougher. Nobody is losing much money yet but, with margins so thin, there are quite a few companies who are unlikely to make much."

S.G. Warburg believes that margins could be as low as 1 per cent when the market is opened up fully. "This could threaten some regional electric companies' continued involvement in gas, given the long wait for deregulation, of the high margin domestic market," says analyst Nick Pink.

The two main risks, says Warburg, are bad debts and failing to sell all the gas bought from a supplier to an end-user. That, in turn, could result in a distressed sale.

Michael Smith

Moving to screens

Continued from page 2

"There may well be a need for some sort of clearing house arrangement which allows requirements to be balanced on the day, but that depends on how many players there are in the market," he said.

One of Ofgas's fears and a concern for some in the gas business is that a spot market which develops gradually may not be as transparent as a formal trading arena. If gas is bought and sold in smoke-filled rooms where private deals are done it will be hard to establish market prices applicable to all participants.

Ofgas's document says: "Confidence that economic pricing signals are being generated transparently would be a key factor in encouraging reliance on the market and hence enabling the industry to add short term supplies to existing long term contract arrangements."

This is why proposals by Morgan Stanley and the two regional electricity companies include the setting up of a commodity market with screen-based trading. Shippers hope that a mix of proposals will be adopted from the varying suggestions in Ofgas's paper, but are not looking for any rigid market proscriptions.

Robert Corzine looks at the concerns of independent gas companies

Uncertainty causes delays

Quadrant, Alliance and Kinetica, just a few of the more than 40 companies which make up the UK's independent gas sector, may not be household names. But in many cases their shareholders are. A large number of the biggest oil and gas companies in the world have been drawn to the UK gas market, the fifth largest in the world and one of the fastest growing.

For most oil and gas producers, the appeal is simple: the opening of the domestic gas market is an opportunity to extract a higher value from North Sea gas reserves than was possible in the past by selling to British Gas, for years the only buyer. Some also see the gas market as a logical downstream expansion. Natural gas is a product which can be marketed alongside other energy sources such as petrol, electricity or home heating oil.

The government's liberalisation programme has also encouraged relative minnows to swim alongside the oil majors. John Astrop, commercial director of Kinetica, a joint venture between PowerGen of the UK and US oil company Conoco, says it is still possible for "someone sitting in a room with a telephone and a fax to run a gas supply business".

Both minnows and majors, however, have been worried that the government will fail to put forward legislation to open the domestic market. The independents have mounted an intense lobbying campaign in recent months to reassure politicians that retail gas prices are likely to fall once competition takes hold.

The political uncertainty has caused many independents to delay making the investments needed to operate in a competitive domestic market. Companies say it is also having an effect on decisions about whether to develop some North Sea gas fields and worry that prolonged delays could undermine the continuing support from their parent companies needed to stay in the market.

The political uncertainty also coincides with growing competition and falling margins in those segments of the market open to competition.

In recent years Ofgas, the industry regulator, has encouraged competition by setting market share targets in the mainly commercial and industrial segments above 2,500 therms a year. It also required British Gas to make available large quantities of gas to the independents as another means of encouraging competition.

The low overheads of the independents enabled them to undercut British Gas prices by 10-15 per cent, and they have quickly captured the mandated 55 per cent of the firm contract market above 2,500 therms a year.

Paying for more than just petrol: Total says its customers will eventually be able to settle their gas bills at petrol stations

But the healthy margins the independents enjoyed in the early stages of competition have disappeared as the focus of competition has shifted away from taking market share from British Gas to intense competition between the independents.

The intensity of the competition is reflected in the fact that the independents submit 15,000 nominations a week to TransCo, the monopoly gas transporter, for quotes on the cost of transporting gas to potential customers. But only 1,500 result in firm contracts, according to TransCo.

Most independents believe the tough operating environment will trigger a wave of rationalisation in the sector over the next two to three years. "The people who look most vulnerable are those without heavyweight financial backing," says one industry executive.

Others say some of the "true independents" – those not connected with North Sea producers and which do not have ready access to cheap supplies of gas – may be forced to retreat to niche markets or confine their activities to gas trading.

The tough financial conditions likely to be required by the government to qualify for a public gas supply licence may also cause some companies to drop out, say industry analysts. But the sheer size of the domestic market encourages a number of companies. Just a 5 per cent market share would still translate into nearly 1m customers, spending on average more than £250 a year.

Details of the market strategies likely to be used by the independents will not be known until the conditions of the public gas supply licences are agreed. But several basic approaches are becoming apparent.

One is the total energy package, with companies likely to offer electricity as well as gas. Some packages may also contain energy savings schemes to induce consumers to switch suppliers, although prices are likely to be the focus in the initial stages of competition.

Some companies intend to link their gas business to existing downstream activities. Total, for example, says its customers will be able to pay their gas bills at their petrol stations. There is also the possibility that gas consumers will be included in the promotional schemes now run by oil companies at their service stations.

Ofgas officials say they would be pleased to see non-energy companies enter the business. These could include credit card companies with existing large billing systems able to handle hundreds of thousands of accounts.

But industry executives say it is more likely that oil and gas companies would form joint ventures with big retailers, such as supermarket or department store chains. "The marketplace could become a battleground for brand names," says one.

If it does, most independents concede that the strongest brand name is likely to remain British Gas. They worry that consumer inertia could prove the biggest barrier to their expansion into the market, and cite British Telecom as an example of how consumers stick to their existing supplier even though a cheaper alternative is available.

UK GAS MARKET 4

David Lascelles meets the head of Ofgas, the industry regulator

'Let markets lead the way'

Clare Spottiswoode has a dual role to play as the UK prepares to deregulate its domestic gas market. As director general of Ofgas, the industry regulator, she is working with the government to set out the rules for the new market. And once deregulation has occurred, she will oversee the market to ensure order and fair play.

Ms Spottiswoode came to the job nearly a year ago after a career as a Treasury economist and more recently a businesswoman in her own right. Although she had limited experience of the gas industry, she had a strong personal belief in the virtue of free markets and competition – a belief which she says has strengthened since she came to Ofgas.

This view has shaped her approach to the regulatory issues. She would rather have a free market and use regulatory action to correct flaws, than intervene in every detail. "We'll try and let markets do it; if not, we'll find a technical way through," she says.

Competition is also the best way to get British Gas to shed its huge "legacy costs", as she calls them. "Regulation can only ever nibble away at the edges. Nothing can engender the culture shock that competition can," she says.

Ms Spottiswoode has advised the government to draw up a brief Gas Bill which provides the enabling legislation but leaves the detail to the terms of the operating licences which she will issue to public gas suppliers (PGS). Although this will put a lot of power in her hands, she says it will give the system the necessary flexibility to evolve.

Spottiswoode: 'a technical way through'

PGS will have the right to seek judicial review if they disagree with her rulings.

But Ms Spottiswoode also says she expects parliament to give her guidance about the line she should take.

One of the first issues she will have to address is who to give licences to in order to ensure that the market works. She will not insist that applicants cover particular geographical segments of the market. Would-be PGS will be allowed to define their markets however they wish. Many, Ms Spottiswoode believes, will want to operate nationwide: no PGS need actually own any gas pipelines to provide a service so there should be no geographical constraints.

However some applicants may be organisations such as housing associations which define their markets by residential type rather than geographical area.

If, once the licences have been issued, there are gaps in the market which leave some areas without a gas supply, she will use her powers to "stretch" existing licences to ensure that these areas are covered. Similarly, she will be able to command companies to patch up holes in the market if a supplier goes out of business.

The next problem is how to avoid cherrypicking: new suppliers going for the choice markets and the easy profits.

Ms Spottiswoode believes this problem has been exaggerated, and says it can be dealt with by identifying the people to be protected and including the necessary obligations in the licence.

There are three issues.

- One is energy efficiency. There will be a requirement on PGS to give advice on efficient use of gas.
- Another is care for the elderly and disabled. The PGS will have to cater to their needs, although Ms Spottiswoode does not believe that these costs will be particularly heavy. She points out that the elderly tend to have good payment records. "The costs are so small that suppliers won't try to avoid them," she says. It is even possible that a PGS may choose to specialise in the market for people whose bills are paid by social security.
- The third is debt and disconnections – or bad customers. Ms Spottiswoode says that many people fell into this category in the past because there was no incentive for British Gas to catch them before their debts became unmanageable. In the new market, suppliers will keep a much closer eye on payments so that non-payers can be spotted early, she says.

Although many expect the new suppliers to offer discounts to the better payers in order to lure them away from British Gas, Ms Spottiswoode says that it would make commercial sense for British Gas to cut prices first since these customers are cheaper to serve. That way, all prices will tend down to the discounted level, and cherrypicking will be much harder.

Ms Spottiswoode maintains that deregulation will not mean price increases – as some critics have argued. She expects most prices to fall. "I don't see that anyone will lose as a result of competition," she says. "Maybe just a few, but they will be caught by the social security net." However she admits that this is "a leap of faith" on her part because no other country has gone as far as the UK in deregulating its utilities.

All these plans, however, depend on the government giving the go-ahead for gas deregulation – something that will be revealed in the Queen's Speech in mid-November.

Ms Spottiswoode is optimistic. She says that support for deregulation is widespread. British Gas wants it, so do the consumer associations, she says.

"When we started work on this we thought there were a lot of contentious issues. But there are not really that many. The real problem is the legislative timetable."

Ms Spottiswoode intends to deliver this message when she appears before the Trade and and Industry Select Committee of the House of Commons next week.

But if the government decides not go ahead with the gas bill in the next session of parliament, what could she do to preserve the head of steam that has built up behind deregulation?

It would be possible to lower the threshold at which competition can enter the market, but that would still require an order to be laid before parliament. If parliament did nothing, the process of change "could fizzle out" creating instability, she says. But she would work hard behind the scenes to ensure that that did not happen.

If gas is not in the Queen's Speech, she hopes that John Major, the prime minister, would at least make a statement promising to deal with it next year. That would be sufficient to keep investors interested.

A pipeline could link the UK to wider markets, says **Rachael Ousley**

An attractive proposal

December could see the end Britain's isolation from the continental gas grid with the construction of a pipeline connecting England and Belgium.

Such a link could open up trading to and from the vast European gas network, widening horizons for gas companies that have already adapted well to new opportunities in the competitive UK market. But is a pipeline commercially viable and the best option for future UK gas trade?

The proposed 300m interconnector consists of a 250km high pressure gas pipeline from Bacton in eastern England to Zeebrugge in Belgium. Although capacity is not definite, the central case has a range of possible flow rates from 9bn cubic metres (Bcm)/yr up to an anticipated maximum 15 Bcm/yr through a 38-inch diameter line. A larger option – a 40-inch line with capacity up to 20 Bcm – is also being considered.

An interconnector study group, comprising seven project sponsors – British Gas, British Petroleum, Conoco, Distrigaz of Belgium, France's Elf and Norsk Hydro and Statoil of Norway – has been set up to examine the feasibility of the proposed pipeline link.

The UK government, and in particular industry and energy minister Tim Eggar, see in the interconnector as an export route in the short term, providing an outlet for valuable gas exports to the continent.

Detractors have suggested low gas prices on continental Europe make it difficult to imagine more expensive gas flowing from the UK to continental buyers. But others suggest present-day prices are irrelevant as there will be a potential surplus of gas from UK continental shelf fields over the next 15 years or so which cannot be absorbed by the UK market alone, already at a high level of penetration.

The interconnector's viability would clearly be enhanced by a strong commitment from a leading producer to use this route. There are suggestions the UK government is putting pressure on Norwegian gas producer Statoil to put some of its volumes through the interconnector. The apparent trade-off would be a softening of the UK government position on imports of gas from Norway to the UK.

The current Frigg treaty allowing Norwegian imports will expire when Frigg gas runs out in 1996-7, but discussions over a future treaty have reached impasse between the Norwegian and British governments. This is in spite of supply contracts negotiated between Statoil and British buyers such as National Power and ScottishPower.

Funding options under consideration include shareholder loans, guaranteed bank and UK finance leasing

Mr Eggar may be prepared to look more favourably on Norwegian imports in return for support by the Norwegians for the interconnector. Statoil already has four pipelines into continental Europe and is considering a fifth to meet future commitments. While the interconnector route carries additional costs of transporting gas via the British Gas network from St Fergus in Scotland to Bacton, on the plus side it could offer Statoil further diversity of export options.

The initial interconnector project concept clearly separated ownership and capacity interests, but interconnector group commercial director Paul Reed said a consistent theme in discussions had been the perceived risk balance between owners and shippers. In May, the group changed its strategy to offer shippers equity in the line linked to the level of booked capacity, to increase the project's chances of success.

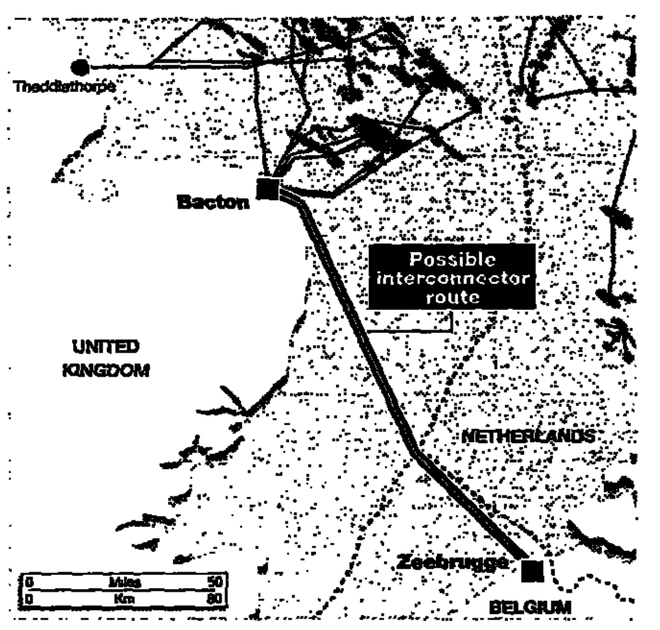
Given the probable creditworthiness of shareholders in the line and the transport terms, the group does not see financing as problematic. Funding options under consideration include shareholder loans, guaranteed bank loans (possibly including the European Investment Bank) and UK finance leasing. Capital market funding post-completion will also be considered.

Shippers expressing interest in using the interconnector must indicate their willingness to make long-term capacity bookings by letter to the steering group by the end of November. A signing meeting for final participants is scheduled for December 8, after which a company will be formed.

Mr Reed said about 20 companies had expressed interest in booking capacity. Of these he expects 10-12 to make final commitments. Initial bids for capacity from shippers ranged from around 0.5 Bcm to 3.0 Bcm, with an average around 1.5 Bcm, but some larger bids are expected. BP has already announced it expects to take up to a 20 per cent stake, according to BP managing director John Browne.

Mr Reed is confident the interconnector will be built and suggests "it is not a case of if, but more a case of how big".

The Bacton-Zeebrugge project does not end with construction of the pipeline. Transportation of increased volumes of gas from landing points such



as St Fergus or Teesside will require British Gas to reinforce its network, unblocking bottlenecks in the system. Harry Moulson, managing director of BG TransCo, the transportation and storage business unit, has suggested this reinforcement could cost more than the interconnector itself.

A working group he established to look at the level of reinforcement required produced three scenarios of different volumes arriving at different terminals. Shippers are being encouraged to give estimates of future demand. Similar reinforcement issues face Belgian gas company Distrigaz which will be carrying gas from Zeebrugge to other European destinations.

The study group examined whether the interconnector would be the most economic means of either taking UKCS (UK Continental Shelf) gas into the European market or bringing continental gas into Britain. On comparing the hypothetical cost of transporting gas from a field in the central North Sea to a customer in Germany via the interconnector with the cost of sending gas via a direct line from the field to a German landfall, it found the estimated pre-tax transportation cost per therm of the interconnector route to be about 5.4 pence, 0.5 pence lower than the alternative.

While the price advantage may seem insignificant, the group claims advantages in terms of capital efficiency and early cash flow of opting for tariff payments instead of upfront capital expenditure make the interconnector a more attractive option in terms of post-tax cash flow.

This benefit is made more significant by the flexibility and grid-to-grid nature of the interconnector. In addition, The interconnector is not field-specific and can offer economies of scale and new trading opportunities such as swaps, peak shaving, aggregation and pooling of capacity.

Rachael Ousley is editor of the Financial Times newsletter, UK Gas Market

LONDON STOCK EXCHANGE

MARKET REPORT

Attempted rally reversed by bond weakness

By Terry Byland,
UK Stock Market Editor

Uncertainty about the US dollar continued to gnaw away at confidence in a sluggish UK equity market yesterday. Further losses in government bonds, following confirmation that domestic retail sales had strengthened in September, also bore down on share prices, and the FT-SE 100 Index lost a further 24.5 points to close at 3,060.8.

Early trading saw a brave attempt at a rally, largely inspired by a brief uptick in stock index futures. The Footsie climbed to just above 3,092, but the flurry was quickly over and it was clear that there was no support for a challenge to the 3,100 area.

The 0.5 per cent gain in UK retail sales last month was in line with some forecasts hurriedly reshaped by City analysts in the wake of Tuesday's survey from the members of the Confederation of British Industry. Members of the CBI reported that retail sales were growing at the fastest rate for nearly a year.

On balance, equity market analysts did not see the retail sales growth as being a threat for an early rise in base rates, but retail and consumer issues showed little enthusiasm for the indication that retail sales may at last be responding to economic recovery.

The market was restrained by the weakness in bonds, especially in Germany, and also by the lack of vitality in the US dollar even before the announcement of the US trade deficit for August. Disclosure that the US trade deficit with Japan had risen to the highest level for a year sparked further weakness in the US currency, and the blue chip dollar-earning shares in London were quick to react.

There were sharp falls among the pharmaceuticals stocks, which had already been unsettled on Tuesday by SmithKline Beecham's admission that sales of its Tagamet drug had been badly hit by expiry of the US patent. Other shares regarded as closely linked to the dollar's fortunes, including RTZ and HSBC, also turned lower.

But the picture was little better among the domestically orientated issues. Most of the high street retailers continued to move lower, on the paucity of buying support rather than on any increased selling pressure.

These stocks are now close to the pre-Christmas period which generates the bulk of their annual profits, and confidence in near term prospects remains muted in spite of yesterday's evidence that retail sales may be picking up.

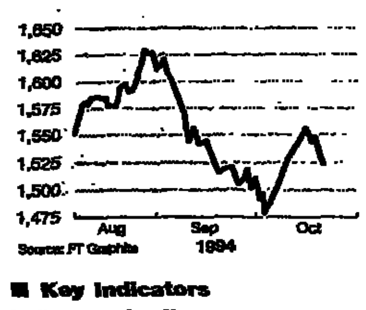
Once again, the focus was on the big name stocks and the second liners were somewhat overlooked. The FT-SE Mid 250 Index retreated 11.1 to 3,521.2. Non-Footsie business made up about 60 per cent of the day's total equity turnover.

Seaq-reported volume moved higher again, from 527.8m shares on Tuesday to 596m yesterday, but was still on the disappointing side of average levels. Traders continued to stress the sluggishness of the market that is believed to be making commercial life difficult for the pure brokerage houses, which depend on retail, or customer, business for their living.

The London market is likely to turn its attention to domestic matters for the rest of the week. This morning brings the latest statistics on domestic money supply and on building society lending, to be followed on Friday by provisional gross domestic product numbers for the third quarter of the year.

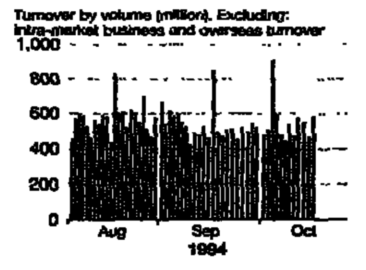
However, the stock market will continue to watch the US dollar closely, with the blue chip issues unlikely to respond to purely domestic factors at present. But many analysts continue to predict an upswing in equities before the end of the year as recovery in the domestic economy shows through in terms of corporate profits and dividends, while subdued inflationary pressures prompt a rally in global bond markets.

FT-SE-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3060.8	-24.5
FT-SE Mid 250	3521.2	-11.1
FT-SE-A 350	1537.4	-10.5
FT-SE-A All-Share	1524.39	-10.01
FT-SE-A All-Share yield	3.94	(3.91)
FT Ordinary index	2357.0	-16.9
FT-SE-A Non Fins p/e	18.74	(18.87)
FT-SE 100 Fut Dec	3070.0	-30
10 yr Gilt yield	8.68	(8.63)
Long gilt/equity yld ratio:	2.22	(2.21)

Best performing sectors

1 Water .... +1.3
2 Merchant Banks .... +0.7
3 Oil Exploration & Prod. .... +0.6
4 Breweries .... +0.2
5 Retailers, Food .... +0.1

Worst performing sectors

1 Pharmaceuticals .... -1.6
2 Telecommunications .... -1.5
3 Oil, Intergrated .... -1.5
4 Tobacco .... -1.4
5 Mineral Extraction .... -1.2

Dividend hopes lift waters

The utilities areas of the market, always viewed as safe havens when the wider market comes under pressure, gave a strong performance yesterday, led by the water stocks.

These were driven sharply higher, helped by general optimism over the forthcoming interim reporting season that commences on November 1 with results from Thames Water, which vies with North West as the sector leader.

Dealers said the surge by the water issues was largely triggered by Smith New Court, whose analyst was said to have highlighted the potential for good increases in interim payments.

Most analysts are looking for interim dividend rises in the region of 7 to 11 per cent for the individual companies. Specialists also pointed out that the government's golden share in all 10 water companies will be abolished on December 31, opening the way for takeover moves.

The best individual performance came from Welsh Water, up 13 at 667p, while Anglian, 549p, Northumbrian, 687p, and Wessex, 631p, were all 12 ahead.

GEC active

Turnover of 13m shares in GEC kept attention firmly fixed on the VSEL takeover saga, where the cash-laden electronics giant is a declared potential counter-bidder to the agreed offer made by British Aerospace for the submarines group.

But most of the activity in GEC turned out to be tax rather than bid related, and the shares dipped 3 to 284p. A bed and breakfast deal involving 11.8m shares passed through the market at 278p. VSEL itself moved down 15 to 1,300 while BAe lost 6 to 478p.

CU switch

Commercial Union came under fire in a generally soggy composite insurance arena as Credit Lyonnais Laing highlighted the impact on CU's balance sheet of the Group Victoire acquisition and recommended a straight sell of CU shares or a switch into Royal Insurance or Guardian.

CLL's insurance team described the acquisition as "well timed from a pure insurance viewpoint", but questioned the long term strategy of purchasing a company which relies on third party distribution when technological developments suggest more business will eventually go direct.

The broker estimated that CU's net asset value had been diluted to a current level of 450p and anticipated initial earnings dilution of 10 to 15 per cent.

CU shares declined 9 to 535p on turnover of 2.2m, while Royal was only 2 off at 282p on 2.3m traded and Guardian a penny easier at 192p.

Barclays outshone other leading banks, moving up 3 to 587p in response to positive noises from Hoare Govett, which was said to have lunched with senior officials from Barclays on Tuesday and reiterated its positive stance on the stock.

Lloyds Bank, on the other hand, continued to suffer from Tuesday's news that Sir David Walker, the deputy chairman, is leaving the bank to join Morgan Stanley, the US investment bank. Lloyds dipped 10 more to 554p.

Lloyds also played a part in the decline of Standard Chartered shares, which lost 6 at 269p on relatively high volume of 3.8m as dealers picked up whispers that Lloyds may at last be ready to dispose of its 4.7 per cent stake in Standard, some 45m shares. Lloyds acquired its holding in Standard in the early 1980s when it unsuccessfully bid for the bank.

Two big individual trades, one of 1.4m shares at 352p and another of 800,000 at the same price, said to have been executed by Swiss Bank Corporation, were the catalyst for the strong upward move by Scottish Power, which settled 5 higher at 353p. Turnover in Power reached a hefty 4.8m.

BTR was hit by a sell note squall, sliding to 305p at one stage before closing 2 off at 309p in 12m turnover. Credit Lyonnais Laing, unhappy with the pressure on the company's profits margins and concerned about earnings dilution through impending warrant conversions, is telling clients to sell.

Smiths Industries put on 7 at 447p following strong results, although it was the 13p dividend – against market hopes for 12.5p – that provided most of the underpinning for the shares.

British Steel, the most heavily traded Footsie stock with 16m shares changing hands, eased 3¼ to 159p as doubts about the shares' ability to outperform the market continued to trigger substantial position taking. The high turnover was mirrored by very active options business.

Senior Engineering continued to rally, moving up 4 to 82p on the back of attempts by the company to reassure City institutions that this year's forecast profits upset is largely an isolated affair.

NatWest Securities' latest property note was something of a mixed blessing for the sector yesterday, with British Land receding 5 to 398p and Brixton Estates 4 to 195p. The securities house expects share price discounts to asset values to widen by a third to 20 per cent on average over the next 12 months and has moved its stance to neutral.

But the house was not uniformly downbeat. Its advice to switch from Brixton Estates to Slough Estates helped to push the latter up 3 to 227p in turnover of 2.3m. Equally, an upgrade of Hammerson's net asset value to 396p following the company's big Australian disposal spurred the shares up 2 to 337p.

Price softness at Grand Metropolitan stood out in an otherwise resilient drinks sector – Guinness put on 2 at 463p and Scottish & Newcastle added 4 at 508p – with the weakness of the dollar helping to push the shares down 5 to 416p. More than half of GrandMet's turnover arises in the US.

Paper group Bowater fell 12 to 452p after dealers said S.G. Warburg removed the stock from its buy list. The house shaved profits forecasts but remained positive over long term prospects.

Publisher Harrington Kilbride dropped 10 to 42p after announcing a first-half loss and passing its interim dividend.

Shop fitter Havelock Europa jumped 18 to 188p as it restored the interim dividend for the first time in three years.

Bullish comments from David Sainsbury, chairman of Britain's biggest supermarket group, propped up the food retailers yesterday. Argyll gained 2 at 269p and J. Sainsbury a penny at 399p, while Asda and Tesco were also firm.

MARKET REPORTERS:
Steve Thompson,
Peter John,
Jeffrey Brown.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (20).
GILTS (1) BUILDING & CNSTRN (1) Havelock Europa, DIVERSIFIED INDLS (1) Whitecroft, ELECTRNC & ELECT EQUP (3) LPA Industries, Mitsubishi, Nokia Prf., EXTRACTIVE INDS (3) Eastvaal, Gencor, Western Areas, INVESTMENT TRUSTS (2) MEDIA (3) Flextech, Yorkshire Tyne -Tees TV, Do Wts., OIL EXPLORATION & PROD (1) Gulfstream, PHARMACEUTICALS (1) British Biotech, PRTNG, PAPER & PACKG (1) Sappi, TRANSPORT (2) P&O 5½pc Pfd., Stagecoach, SOUTH AFRICANS (1) SASOL.
NEW LOWS (94).
GILTS (1) BANKS (2) Bank of Scotland 9¼pc Prf., Bank of Scotland 9¾pc Prf., BLDG MATLS & MCHTS (2) Heywood Williams, Do Prf., CHEMICALS (1) Hickson Intl., DISTRIBUTORS (4) Bletchley Motor, Glenchewton, Headlam, Lex Service, DIVERSIFIED INDLS (1) Powell Duffryn, ELECTRNC & ELECT EQUP (4) Delta, Johnson, Scantronic, Silvermines, ENGINEERING (2) Vickers, Whessoe, EXTRACTIVE INDS (4) Pacific Aro, Sipa, St. Barbara, Straits, HOUSEHOLD GOODS (2) Fine Decor, Vymura, INSURANCE (1) American Gen., INVESTMENT TRUSTS (17) INVESTMENT COMPANIES (5) Hungarian, Korea China Super Fd., Portugal Fd. Prf., Spanish Smaller Co's, Do Wrts., LEISURE & HOTELS (2) Magnolia, Sinclair (Wm), LIFE ASSURANCE (1) Lincoln National, MEDIA (2) BBB Design, Portsmouth & Sunderland, MERCHANT BANKS (1) Wintrust, OIL EXPLORATION & PROD (3) Fict, Schlumberger, OTHER FINANCIAL (3) Intermediate Cap., Swire Pacific A, Towry Law, OTHER SERVS & BUSNS (2) Leigh Interests, Waste Management Intl., PHARMACEUTICALS (1) Grampian, PRTNG, PAPER & PACKG (6) Bemrose, Britton, Cropper (J), Lawson Mardon, Flyeu, Sidlaw, PROPERTY (4) Cathay Intl., Debenham Tewson & Chinnocks, Regalian, Smith (J), RETAILERS, GENERAL (2) Fine Art Devs., Nottingham, SUPPORT SERVS (3) Auto'ted Sec., McDonnell Info, Sze-Plus, TEXTILES & APPAREL (2) Lister, Parkland, TRANSPORT (2) Eurotunnel Units, Vard AS, AMERICANS (5) American T & T, Bell Atlantic, California Energy, Malvy Technology, US West.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures continued to decline, with premiums to the cash market narrowing through most of the session, *writes Jeffrey Brown.*

The FT-SE 100 December contract was 3,070 at the official 4.10pm close, down 40 points for a two-day decline of 70. The cash market premium at this level was 13 points, broadly in line with fair value premium.

Although the premium to cash equities was slim, narrowing to around 8 points at times, traders said there was very little downward pressure on the cash market.

The quality business remained poor, with little liquidity to be found in either the morning or afternoon session. Traders said it was hard to deal in sizes of more than 15 to 20 contracts.

Institutional investors, after their brief reappearance on Tuesday, stayed on the sidelines. The atmosphere was gloomy, and most traders thought the contract would go lower before it recovered.

Activity was again dull, with contract numbers easing to 12,822, from 13,429 in the previous session.

Stock options turnover totalled 39,813 lots, against 26,685 on Tuesday. FT-SE and Euro FT-SE business accounted for 28,500 lots.

Guinness was far and away the most active individual option, trading 2,060 lots. Glaxo, HSBC and British Steel were also busy options.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3100.0	3070.0	-30.0	3114.0	3065.0	13694	55102
Mar	3131.0	3093.0	-30.0	3131.0	3107.5	11	3788

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3537.0	3533.0	-17.0	3537.0	3537.0	20	4224

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3533.0	-	-	-	-	0

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3057) £10 per full index point

	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P	3250 C	3250 P
Oct	161	1	111	1	61	2½	28	12½	2½	48	1	95	1	145	1	195
Nov	182½	15½	140½	23½	104½	37½	73½	57	47	82	28	114	15	153½	8	198½
Dec	200½	31½	166	48	131½	61	102	83	74½	107½	53½	135½	39½	170	23	206
Jan	226	46	198	60½	157	77½	128½	98½	109	121½	78½	150	58	181	44½	218
Jun†	288	83			228½	120½			170½	165			127	221½		

Calls 8,919 Puts 13,065

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2875 C	2875 P	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P	3225 C	3225 P
Oct	183	1	133	1½	93½	1½	38	6	8½	26½	1	69	1	118½	1	168½
Nov	203	12	161	19½	123	31	89½	47½	61½	69½	38½	97	23	130½	12½	169½
Dec	218½	25½	188	36½	146	51½	114½	70	86½	91½	63	117½	43½	147½	27½	181
Mar			234½	70½			171½	105			118½	150			77½	206½
Jun†			278½	94			214½	128			180½	170			115½	221

Calls 2,370 Puts 5,600 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3400	3450	3500	3550	3600	3650	3700	3750
Oct			134¾ 71¼	107¾ 93½	84⅝ 118¼			

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

FT - SE Actuaries Share Indices — The UK Series

	Oct 19	Day's chge%	Oct 18	Oct 17	Oct 14	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3060.8	-0.8	3085.3	3120.2	3106.7	3156.3	4.12	7.10	16.65	110.35	1161.20
FT-SE Mid 250	3521.2	-0.3	3532.3	3548.0	3543.4	3507.1	3.55	5.79	20.82	108.30	1314.53
FT-SE Mid 250 ex Inv Trusts	3516.7	-0.3	3528.1	3541.9	3537.8	3503.5	3.72	6.27	19.37	112.79	1310.16
FT-SE-A 350	1537.4	-0.7	1547.9	1563.0	1557.4	1573.1	3.99	6.80	17.45	53.58	1182.74
FT-SE SmallCap	1792.87	-0.2	1797.34	1800.15	1798.13	1796.96	3.29	4.93	25.41	48.09	1394.11
FT-SE SmallCap ex Inv Trusts	1782.48	-0.2	1785.46	1787.86	1785.82	1780.72	3.49	5.48	23.19	49.83	1374.84

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	65	5
Other Fixed Interest	0	2	12
Mineral Extraction	42	80	74
General Manufacturers	77	177	383
Consumer Goods	27	60	100
Services	60	117	318
Utilities	17	14	14
Financials	50	135	180
Investment Trusts	28	208	229
Others	26	66	20
Totals	328	923	1335

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	October 10	Expiry	January 12
Last Dealings	October 21	Settlement	January 26

Calls: Aminex, Anglo Pacific, BTR Wts, Canadian Pizza, Euro Disney, Greenwich Res, Lon Merchant, MFI, Smith (DS), Tullow Oil. Puts: Aminex, Lon Merchant. Puts & Calls: Division Grp, Eurotunnel, Nutricia.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	28.3	360	340	Wrexham Water	340		-	-	-	-
-	F.P.	4.74	330	320	Do. NV	320	-5	-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
17	Nil	2/12	2pm	¼pm	APTA Health	¼pm	-¼
118	Nil	28/11	20pm	9½pm	Celtics	9½pm	-3½
Ir4p	Nil	25/11	¼pm	¼pm	Dragon Oil	¼pm	
500	Nil	18/10	60pm	24pm	Reckitt & Colman	60pm	
Ir330p	Nil	29/11	59pm	48pm	Smurfit (J)	48pm	-6
75	Nil	14/11	5pm	1½pm	World of Leather	1½pm	-1½

FINANCIAL TIMES EQUITY INDICES

	Oct 19	Oct 18	Oct 17	Oct 14	Oct 13	Yr ago	*High	*Low
Ordinary Share	2357.0	2373.9	2400.4	2391.2	2412.2	2379.2	2713.6	2240.6
Ord. div. yield	4.36	4.33	4.29	4.32	4.28	3.91	4.51	3.43
Earn. yld. % full	6.22	6.18	6.12	6.15	6.10	4.53	6.61	3.82
P/E ratio net	18.51	18.64	18.82	18.71	18.86	27.80	33.43	18.94
P/E ratio nil	18.04	18.17	18.35	18.24	18.39	25.64	30.80	17.09

*For 1994. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2369.8	2376.9	2378.1	2371.5	2366.7	2362.2	2355.2	2354.7	2357.8	2380.5	2351.7

	Oct 19	Oct 18	Oct 17	Oct 14	Oct 13	Yr ago
SEAQ bargains	20,146	21,758	23,946	24,943	27,853	32,289
Equity turnover (£m)†	-	1018.1	1076.5	1519.7	1692.7	1501.6
Equity bargains†	-	24,970	26,871	28,972	31,334	38,551
Shares traded (m)†	-	478.6	436.3	549.0	634.2	705.1

†Excluding intra-market business and overseas turnover.

FT GOLD MINES INDEX

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£21⅛	-⅜	£25⅝	£19⅝	6,316	5.3	φ
ANZ A$		177	+4	278¼	173	2,265	5.1	27.8
Abbey National	†N□	404	-7	523	360½	6,300	4.8	13.6
Allied Irish I£	‡†N□	245	-6	314	233	1,633	6.1	9.4
Anglo Irish I£	MN□	58	—	*70	50	199.6	7.4	10.6
Asahi Y	□	669½	-4	819¾	628	18,233	0.6	φ
Banco Bil Viz Pta	□	£18⅛	-⅜	£16⅞	£14⅝	3,621	6.1	7.2
Banco Sant Pta		£28¼	—	*£30½	£23¾	4,280	6.1	9.8
Bk Ireland I£	‡□	279	-8	*319	246	1,318	4.7	8.1
Bank Scotland	‡†N□	203xd	-2	247	172½	2,369	3.3	17.4
9¼pc Pf		107xd	-¼	141½	106¾	107.0	10.8	–
9¾pc Pf		112¼xd	-¼	148½	112	112.2	10.9	–
Barclays	‡†N□	567	+3	640	487	9,236	3.7	12.1
Dai Ichi Kan Y	□	£11⅛	+⅛	£12⅜	£10⅞	34,722	0.5	–
Deutsche DM	□	£298¾	+4⅝	£344¼	£270⅝	14,270	2.3	–
Espirito Santo	□	£8⅞	-⅛	*£13⅞	£8⅞	191.6	4.1	4.6
First Nat Fin	N□	69½	-1½	*90	60	117.3	2.7	–
6.3pc Cv Pf		73	—	*90	73	4.91	10.6	–
7pc Cv Pf		131½	-½	171	123	62.4	6.7	–
Fuji Bank Y	□	1357½	+1½	1549¼	1152½	39,327	0.4	φ
HSBC HK	†N□	719xd	-3	1133	680	12,582	4.3	10.4
HSBC (75p Shs)	†N□	715xd	-2	1113	650	6,064	4.3	10.4
Lloyds	†N□	594	-10	660	519	7,179	5.2	10.9
Mitsubishi Y	□	£15½	+⅛	£16⅝	£15⅝	44,678	0.3	φ
Mits Tst & Bk Y	□	947½	+3¼	1162¼	687½	11,358	0.5	16.0
Mitsui Tst & Bk Y	□	726½	+10½	879	514	8,704	0.7	24.4
Nat Aust A$	†	479	+7	620¼	472	6,412	5.6	10.5
NatWest	†N□	496	-3	622	421	8,306	4.9	9.3
Ottomane FFr		£21¼	—	£33	£21¼	106.6	6.7	φ
Ryl Bk Scotland	‡†N□	427	-4	528	377½	3,420	3.5	19.3
Sakura Y	□	£8⅞	+⅛	£9⅞	£8⅛	27,088	0.7	60.4
Sanwa Y	□	£12⅝	+⅛	£15⅝	£11⅞	36,898	0.4	–
Standard Chartd	†N□	289xd	-6	*358¼	223	2,590	3.0	9.2
7 3/8pc Prf		85	-½	108½	82¾	85.0	10.8	–
Sumitomo Y	□	£11½	-⅛	£16¼	£11½	38,147	0.5	24.5
Sumitomo Tst Y	□	916¼	+3	1148½	625	11,389	0.6	φ
TSB	†N□	219	-1	281	197	3,352	4.6	11.0
Tokai Y	□	£7⅛	-⅛	£9	£6⅝	16,358	0.8	47.1
Toyo Tst & Bk Y	□	705¼	+8¼	852	586¼	5,547	0.7	62.3
Westpac A$		215	—	280	194	3,913	2.5	φ
Yasuda Tst Bk Y	‡□	558½	+5	658	442	6,136	0.9	49.1

BREWERIES

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD MANUFACTURERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

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OFFSHORE AND OVERSEAS

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UK Prof Advisers 0800 414181 Jersey: 0534 71696
Private Clients 0800 414161 010 352 250404230
From O'seas (44) 732 777377 Hong Kong (852) 848 1000

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
A$ Accum		A$-	16.974		+0.008	4.40
A$ Dist		A$-	15.134		+0.006	4.40
ASch Accum		Sch-	235.43		+0.04	3.50
ASch Dist		Sch-	201.53		+0.03	3.50
BFr Accum		BFr-	530.03		+0.19	3.90
BFr Dist		BFr-	504.18		+0.18	3.90
C$ Accum		C$-	17.022		+0.005	3.70
C$ Dist		C$-	15.138		+0.005	3.70
DKr Accum		DKr-	108.05		+0.04	4.40
DKr Dist		DKr-	100.97		+0.04	4.40
DM Accum		DM-	35.185		+0.011	3.80
DM Dist		DM-	30.234		+0.009	3.80
DFl Accum		Dfl-	30.000		+0.010	3.60
DFl Dist		Dfl-	28.210		+0.009	3.60
ECU Accum		ECU-	12.414		+0.004	4.70
ECU Dist		ECU-	10.103		+0.004	4.70
FFr Accum		FFr-	104.05		+0.02	2.60
FFr Dist		FFr-	100.57		+0.02	2.60
FFr Accum		FFr-	61.744		+0.022	4.30
FFr Dist		FFr-	50.473		+0.018	4.30
HK$ Accum		HK$-	109.73		+0.04	4.50
HK$ Dist		HK$-	100.66		+0.04	4.50
I£ Accum		I£-	11.350		+0.003	4.00
I£ Dist		I£-	10.090		+0.003	4.00

Lazard Freres Asset Management (CI) Ltd
PO Box 275, St Peter Port, Guernsey, CI 0481 710451

Lazard Fund Mngrs (Channel Islands) Ltd
PO Box 275, St Peter Port, Guernsey, C.I. 0481 710451

Lazard Select Investment Trust Ltd

Lloyds Int'l Money Market Fund Ltd
Sarnia Hse, Le Truchot, St Peter Port 0481 724983

Lloyds Bank Fund Managers (Guernsey) Ltd

Dealing daily

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 0481 722663

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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CURRENCIES AND MONEY

MARKETS REPORT

US trade figures keep dollar under pressure

The dollar remained very weak on the currency markets yesterday with the US August trade figures providing further ammunition for the bears, *writes Philip Gawith.*

Analysts said the report was doubly bad in that the US's trade deficit with Japan had widened, re-focusing attention on the US-Japan trade dispute, while robust import growth had aggravated market fears about inflation, undermining US bonds and the dollar.

Against the yen, the dollar closed in London at Y97.15, from Y97.685, after touching a low of Y96.70. It was virtually unchanged against the D-Mark at DM1.5009, from DM1.5003.

Mr Wayne Angell, chief economist at Bear Stearns, and a former Federal Reserve Board governor, said the dollar's weakness was "solely" attributable to over-accommodative policy from the Fed. He said interest rates needed to rise by 100-150 basis points to reach a neutral policy stance.

Elsewhere the D-Mark was generally firmer in Europe. It closed at FFr3.433 against the French franc, from FFr3.431.

Sterling finished slightly firmer against both the dollar and D-Mark, at $1.6188 and DM2.4296. The trade weighted index finished at 80.2 from 80.

■ With the German elections out of the way, political volatility in France has come into focus, fuelled by the resignation of the industry minister over corruption allegations, and cabinet squabbles about the conservative candidate in the 1995 presidential elections.

"Political issues are still a big factor in the market," said Mr Jeremy Hawkins, chief economist at the Bank of America in London. Commenting on the franc, he noted: "It has again been weak against a not overly robust D-Mark."

Other political issues in the market at the moment include the upcoming US congressional elections; and some evidence that political tensions in Russia are causing weakness in the D-Mark.

■ Speculation about the likely abolition of the financial rand, the investment currency for foreigners, has recently renewed focus on South African currencies. This – and generalised dollar weakness – has helped the finrand to strengthen. The discount to the commercial rand has shrunk to 11 per cent, a level last seen around the time of the successful reform referendum in February 1992.

The finrand breached the psychologically important R4 level to finish at R3.96 against the dollar. The commercial rand finished at R3.5193.

Finrand traders in London said activity had been brisk, but it had been mostly speculative, with no sign of large institutional orders.

But Mr Emin Eyi, head of South Africa sales at Baring Securities in London, said speculators might have opened the door for other investors. He said net foreign purchases of bonds and equities had risen in recent weeks. Referring to the expected merger of the currencies, he said: "There are not many currencies that have a sure fire rise of 5-10 per cent built in."

Mr Eyi predicted that the financial rand would continue to appreciate, but said its abolition could probably only be expected in the first half of 1995, rather than imminently. The country's foreign reserve levels are still too low, and there is little evidence as yet that it is seen as a pressing political priority by the government.

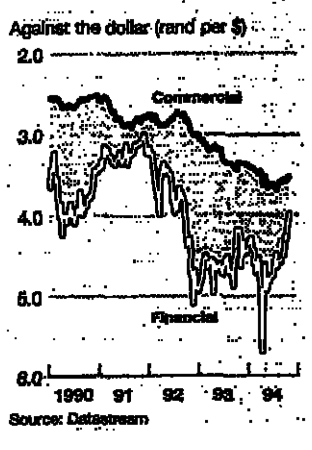
Following the granting of an investment grade credit rating recently, the government is expected soon to announce its return to international capital markets with a bond issue. The prospectus for the issue is likely to contain more detail about a possible timetable for the abolition of the finrand.

■ The Bank of England provided £764m assistance to UK money markets, compared to a forecast shortage of £1.05bn. Overnight money traded between 5 and 7 per cent.

In the gilt repo today, the Bank will provide the market with £1.28bn assistance, maturing on November 10, at established rates. For the first time since the repo facility was introduced in March, only the shorter maturity date was taken up. There was no demand for the repo maturing on November 24.

Analysts said this reflected the fact that market rates were fairly soft, making investors reluctant to lock into a longer dated repo facility when cheaper funding was available. Today's repo will introduce a net injection of about £500m into the system. This should take some pressure off the size of the daily shortages, which have recently crept up to around £1bn.

South Africa



Source: Datastream

■ **Pound in New York**

Oct 19	—Latest—	– Prev. close –
£ spot	1.6185	1.6125
1 mth	1.6177	1.6116
3 mth	1.6170	1.6110
1 yr	1.6063	1.6004

■ **OTHER CURRENCIES**

Oct 19	£	$
Hungary	171.084 - 171.311	105.700 - 105.800
Iran	2819.00 - 2822.00	1748.00 - 1750.00
Kuwait	0.4807 - 0.4817	0.2970 - 0.2975
Poland	37128.0 - 37193.0	22940.0 - 22970.0
Russia	4882.30 - 4885.54	3016.00 - 3018.00
U.A.E.	5.9362 - 5.9480	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Oct 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.1350	+0.0763	267 - 433	17.1433	17.0527	17.1307	0.3	17.1188	0.4	-	-	115.4
Belgium	(BFr)	49.9916	+0.0985	713 - 122	50.0810	49.8520	49.9618	0.7	49.9088	0.7	49.5468	0.9	117.3
Denmark	(DKr)	9.5153	+0.0159	105 - 201	9.5319	9.4941	9.5106	0.6	9.5293	-0.6	9.5587	-0.5	117.4
Finland	(FM)	7.4893	+0.0148	798 - 988	7.5090	7.4450	-	-	-	-	-	-	88.4
France	(FFr)	8.3381	+0.0244	348 - 413	8.3508	8.3086	8.3385	-0.1	8.333	0.2	8.2837	0.7	110.5
Germany	(DM)	2.4296	+0.0061	284 - 307	2.4377	2.4223	2.4284	0.6	2.4252	0.7	2.3957	1.4	128.8
Greece	(Dr)	372.810	+0.977	556 - 064	373.572	371.761	-	-	-	-	-	-	-
Ireland	(I£)	1.0122	+0.0005	114 - 129	1.0145	1.0112	1.012	0.2	1.0116	0.2	1.0135	-0.1	105.4
Italy	(L)	2480.81	+8.04	939 - 223	2485.17	2472.58	2486.91	-3.0	2498.71	-2.9	2553.11	-2.9	74.9
Luxembourg	(LFr)	49.9918	+0.5985	713 - 122	50.0810	49.8520	49.9618	0.7	49.9068	0.7	49.5468	0.9	117.3
Netherlands	(Fl)	2.7223	+0.0066	212 - 233	2.7283	2.7150	2.7209	0.6	2.7175	0.7	2.6888	1.3	121.3
Norway	(NKr)	10.5796	+0.0241	753 - 839	10.6037	10.5034	10.5791	0.1	10.5824	-0.1	10.5832	0.0	96.7
Portugal	(Es)	248.891	+0.733	748 - 033	249.285	248.002	250.621	-8.3	253.801	-7.9	-	-	-
Spain	(Pta)	202.480	+1.023	365 - 594	202.624	201.464	202.82	-2.0	207.715	-10.3	206.37	-1.9	88.6
Sweden	(SKr)	11.6574	+0.0209	484 - 663	11.7078	11.5830	11.6784	-2.2	11.7254	-2.3	11.9134	-2.2	75.9
Switzerland	(SFr)	2.0138	+0.0002	125 - 151	2.0209	2.0103	2.0108	1.8	2.0046	1.8	1.9675	2.3	123.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.2
Ecu	-	1.2757	+0.003	748 - 765	1.2786	1.2716	1.2756	0.0	1.2754	0.1	1.2716	0.3	-
SDR†	-	0.920496	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6186	+0.0034	181 - 190	1.6212	1.6125	-	-	-	-	-	-	-
Brazil	(R)	1.3809	+0.0142	789 - 828	1.3826	1.3658	-	-	-	-	-	-	-
Canada	(C$)	2.1903	+0.0011	889 - 916	2.1962	2.1823	2.1894	0.5	2.1884	0.3	2.1871	0.1	86.6
Mexico	(New Peso)	5.5367	+0.014	333 - 441	5.5444	5.5212	-	-	-	-	-	-	-
USA	($)	1.6188	+0.0034	184 - 192	1.6214	1.6125	1.618	0.6	1.6172	0.4	1.6062	0.8	61.0
Pacific/Middle East/Africa													
Australia	(A$)	2.2011	+0.01	998 - 024	2.2051	2.1872	2.2011	0.0	2.2024	-0.2	2.2205	-0.9	-
Hong Kong	(HK$)	12.5066	+0.0259	051 - 120	12.5281	12.4611	12.5047	0.4	12.5036	0.2	12.5107	0.0	-
India	(Rs)	50.7798	+0.1067	611 - 984	50.7984	50.7610	-	-	-	-	-	-	-
Japan	(Y)	157.287	-0.534	179 - 354	157.940	156.840	156.837	3.3	155.882	3.6	150.947	4.0	189.5
Malaysia	(M$)	4.1244	-0.0041	226 - 262	4.1326	4.1187	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6458	+0.0043	436 - 479	2.6517	2.6364	2.6497	-1.8	2.6578	-1.8	2.6798	-1.3	-
Philippines	(Peso)	41.1176	+0.3287	837 - 515	41.4515	40.7837	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.0720	+0.0127	701 - 739	6.0815	6.0488	-	-	-	-	-	-	-
Singapore	(S$)	2.3783	+0.0012	769 - 797	2.3807	2.3744	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6970	-0.003	943 - 996	5.7078	5.6698	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4105	-0.0431	927 - 282	6.5140	6.3927	-	-	-	-	-	-	-
South Korea	(Won)	1294.64	+4.67	423 - 504	1296.83	1287.90	-	-	-	-	-	-	-
Taiwan	(T$)	42.2677	+0.0838	524 - 830	42.3307	42.1185	-	-	-	-	-	-	-
Thailand	(Bt)	40.3405	+0.0766	224 - 586	40.3970	40.2000	-	-	-	-	-	-	-

†SDR rates for Oct 18. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.5850	+0.025	825 - 875	10.6006	10.5340	10.585	0.0	10.5848	0.0	10.51	0.7	104.6
Belgium	(BFr)	30.8820	-0.004	770 - 870	30.9400	30.8120	30.882	0.0	30.857	0.3	30.832	0.2	106.3
Denmark	(DKr)	5.8780	-0.0025	765 - 795	5.9068	5.8620	5.8824	-0.9	5.8915	-0.9	5.948	-1.2	105.6
Finland	(FM)	4.6265	-0.0005	217 - 312	4.6490	4.5947	4.6273	-0.2	4.6237	0.2	4.634	-0.2	82.9
France	(FFr)	5.1508	+0.0043	500 - 515	5.1625	5.1330	5.1532	-0.5	5.1523	-0.1	5.1548	-0.1	106.8
Germany	(D)	1.5009	+0.0006	005 - 012	1.5076	1.4960	1.5009	0.0	1.4995	0.4	1.4908	0.7	107.5
Greece	(Dr)	230.300	+0.12	200 - 400	230.700	229.700	230.595	-1.5	231.175	-1.5	233.375	-1.3	66.9
Ireland	(I£)	1.5994	+0.0026	986 - 001	1.6023	1.5896	1.5993	0.0	1.5995	0.0	1.5864	0.8	-
Italy	(L)	1532.50	+1.75	200 - 300	1536.30	1529.75	1537.05	-3.6	1545	-3.3	1589	-3.7	75.2
Luxembourg	(LFr)	30.8820	-0.004	770 - 870	30.9400	30.8120	30.882	0.0	30.857	0.3	30.832	0.2	106.3
Netherlands	(Fl)	1.6817	+0.0006	814 - 819	1.6885	1.6776	1.6818	0.0	1.6802	0.3	1.6719	0.6	106.1
Norway	(NKr)	6.5365	+0.0012	344 - 385	6.5645	6.4820	6.5393	-0.7	6.557	-1.3	6.6105	-1.1	97.0
Portugal	(Es)	153.750	+0.13	700 - 800	153.930	153.300	154.425	-5.3	155.65	-4.9	160	-4.1	95.1
Spain	(Pta)	125.080	+0.37	040 - 120	125.120	124.680	125.355	-2.6	125.815	-2.4	128.43	-2.7	81.2
Sweden	(SKr)	7.2013	-0.0022	975 - 050	7.2530	7.1563	7.2161	-2.5	7.2488	-2.6	7.4138	-3.0	81.3
Switzerland	(SFr)	1.2440	-0.0025	435 - 445	1.2495	1.2408	1.2428	1.2	1.2394	1.5	1.2243	1.6	106.9
UK	(£)	1.6188	+0.0034	184 - 192	1.6214	1.6125	1.618	0.6	1.6172	0.4	1.6062	0.8	88.3
Ecu	-	1.2690	-0.0003	685 - 695	1.2725	1.2657	1.2683	0.7	1.2676	0.5	1.2637	0.4	-
SDR†	-	1.48430	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9978	-	-	-	-	-	-	-
Brazil	(R)	0.8530	+0.007	520 - 540	0.8540	0.8480	-	-	-	-	-	-	-
Canada	(C$)	1.3530	-0.0022	525 - 535	1.3557	1.3525	1.353	0.0	1.3532	-0.1	1.361	-0.6	83.4
Mexico	(New Peso)	3.4215	+0.0015	190 - 240	3.4240	3.4190	3.4225	-0.4	3.4243	-0.3	3.4317	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	94.4
Pacific/Middle East/Africa													
Australia	(A$)	1.3597	+0.0033	592 - 602	1.3615	1.3557	1.3599	-0.2	1.3606	-0.3	1.368	-0.6	85.3
Hong Kong	(HK$)	7.7271	-0.0002	268 - 273	7.7272	7.7270	7.7268	0.0	7.7277	0.0	7.7428	-0.2	-
India	(Rs)	31.3688	-	650 - 725	31.3700	31.3675	31.4539	-3.3	31.5988	-2.9	-	-	-
Japan	(Y)	97.1500	-0.535	200 - 800	97.7500	96.8000	96.93	2.7	96.36	3.3	93.885	3.4	149.7
Malaysia	(M$)	2.5476	-0.0079	473 - 483	2.5535	2.5470	2.5386	4.3	2.5273	3.2	2.6008	-2.1	-
New Zealand	(NZ$)	1.6344	-0.0008	335 - 353	1.6399	1.6335	1.6353	-0.7	1.6372	-0.7	1.6425	-0.5	-
Philippines	(Peso)	25.4000	+0.15	000 - 000	25.6000	25.2000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7510	-	507 - 512	3.7512	3.7507	3.7523	-0.4	3.7584	-0.8	3.775	-0.6	-
Singapore	(S$)	1.4692	-0.0023	687 - 697	1.4719	1.4675	1.4679	1.1	1.466	0.9	1.4592	0.7	-
S Africa (Com.)	(R)	3.5193	-0.0092	185 - 200	3.5280	3.5070	3.5348	-5.3	3.5631	-5.0	3.6398	-3.4	-
S Africa (Fin.)	(R)	3.9600	-0.035	500 - 700	4.0200	3.9500	3.9937	-10.2	4.0525	-8.3	-	-	-
South Korea	(Won)	799.750	+1.205	700 - 800	800.000	798.500	802.75	-4.5	806.25	-3.3	824.75	-3.1	-
Taiwan	(T$)	26.1105	-0.0155	075 - 135	26.1210	26.1075	26.1305	-0.9	26.1705	-0.9	-	-	-
Thailand	(Bt)	24.9200	-0.005	150 - 250	24.9250	24.9150	24.9925	-3.5	25.12	-3.2	25.6	-2.7	-

†SDR rate for Oct 18. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 18. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

October 19	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅝	4 13/16	5⅝	5½	6¾	7.40	4.50	-
week ago	4⅝	4 15/16	5⅝	5 13/16	6⅝	7.40	4.50	-
France	5⅝	5¼	5⅝	5⅞	6⅛	5.00	-	6.75
week ago	5 11/16	5⅞	5 13/16	5⅝	6⅛	5.00	-	6.75
Germany	4.88	4.95	5.15	5.25	5.58	6.00	4.50	4.85
week ago	4.90	4.95	5.20	5.30	5.70	6.00	4.50	4.85
Ireland	4 13/16	5⅝	5⅞	6⅛	7⅛	-	-	6.25
week ago	4 13/16	5½	5⅞	6⅛	7¼	-	-	6.25
Italy	8⅞	8⅝	8⅝	9⅛	10⅝	-	7.50	8.20
week ago	8½	8⅝	8 13/16	9⅜	10⅛	-	7.50	8.20
Netherlands	4.84	4.93	5.17	5.30	5.69	-	5.25	-
week ago	4.84	4.93	5.21	5.38	5.61	-	5.25	-
Switzerland	3 15/16	3 15/16	4⅛	4⅛	4 11/16	6.625	3.50	-
week ago	3 13/16	3 15/16	4⅛	4⅛	4 11/16	6.625	3.50	-
US	4 11/16	4 13/16	5⅛	5¾	6⅛	-	4.00	-
week ago	4⅝	4 15/16	5⅛	5⅜	6⅛	-	4.00	-
Japan	2¼	2⅛	2⅛	2½	2⅞	-	1.75	-
week ago	2⅛	2⅛	2⅛	2⅜	2⅝	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	5	5⅜	5⅝	6¾	-	-	-
week ago	-	5	5⅛	5⅞	6⅛	-	-	-
US Dollar CDs	-	4.79	5.20	5.52	6.10	-	-	-
week ago	-	4.79	5.31	5.60	6.16	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3¾	4	-	-	-
week ago	-	3⅝	3⅝	3⅞	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5½; 3 mths: 5⅝; 6 mths: 6¼; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 19	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 13/16 - 4 11/16	4 15/16 - 4 11/16	4 15/16 - 4 13/16	5 5/16 - 5 3/16	5½ - 5⅜	6 5/16 - 6 3/16
Danish Krone	6 - 5¾	6 - 5¾	6 - 5¾	6⅜ - 6¼	6¾ - 6⅝	7½ - 7⅜
D-Mark	4⅞ - 4¾	4⅞ - 4¾	4 15/16 - 4 13/16	5 3/16 - 5 1/16	5¼ - 5⅛	5⅝ - 5½
Dutch Guilder	4⅞ - 4¾	4⅞ - 4¾	4 15/16 - 4 13/16	5 3/16 - 5 1/16	5 7/16 - 5 5/16	5⅝ - 5 9/16
French Franc	5 5/16 - 5 3/16	5 7/16 - 5 5/16	5 7/16 - 5 5/16	5⅝ - 5½	5⅞ - 5¾	6⅜ - 6¼
Portuguese Esc.	9⅛ - 9	9⅛ - 9	9⅝ - 9⅜	10¼ - 10	10⅜ - 10⅛	10⅝ - 10⅜
Spanish Peseta	7½ - 7 3/16	7½ - 7⅜	7½ - 7⅜	7⅞ - 7¾	8 5/16 - 8 3/16	9 - 8⅞
Sterling	5¾ - 5½	5 5/16 - 5 7/16	5⅝ - 5½	5 13/16 - 5 11/16	6½ - 6⅜	7⅛ - 7⅜
Swiss Franc	4 - 3⅞	4 - 3⅞	3⅞ - 3¾	4⅛ - 4	4 5/16 - 4 3/16	4 11/16 - 4 9/16
Can. Dollar	4⅞ - 4 11/16	4⅞ - 4 11/16	4 13/16 - 4 11/16	5 5/16 - 5 3/16	5 13/16 - 5 11/16	6 13/16 - 6 11/16
US Dollar	4¾ - 4⅝	4 13/16 - 4 11/16	5 - 4⅞	5 9/16 - 5 7/16	5 13/16 - 5 11/16	6 5/16 - 6 3/16
Italian Lira	9 - 7½	8⅜ - 8⅛	8 5/16 - 8 3/16	8¾ - 8⅝	9¼ - 9⅛	10 5/16 - 10 3/16
Yen	2¼ - 2 3/16	2 5/16 - 2 3/16	2 5/16 - 2¼	2 13/16 - 2 11/16	2½ - 2 7/16	2 13/16 - 2¾
Asian $Sing	1⅞ - 1¾	1¼ - 1⅛	2⅜ - 2¼	3 5/16 - 3 3/16	3⅝ - 3½	4 - 3⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.17	94.20	+0.02	94.21	94.16	11,676	59,168
Mar	93.75	93.77	-	93.78	93.74	12,717	36,844
Jun	93.39	93.39	-0.03	93.41	93.36	11,184	25,092
Sep	93.04	93.06	-0.01	93.06	93.03	2,706	19,670

■ **THREE MONTH EURODOLLAR** (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	94.08	-0.04	-	-	0	2584
Mar	-	93.67	-0.05	-	-	0	1386
Jun	-	93.26	-0.06	-	-	0	300
Sep	-	92.93	-0.06	-	-	0	52

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.81	94.80	-0.02	94.82	94.79	13788	157736
Mar	94.53	94.50	-0.05	94.53	94.48	30733	137034
Jun	94.17	94.13	-0.07	94.18	94.10	26199	100297
Sep	93.78	93.76	-0.06	93.79	93.73	12868	76327

■ **THREE MONTH EUROLIRA INT.RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	90.72	90.65	-0.09	90.73	90.63	5174	31305
Mar	90.02	89.96	-0.09	90.04	89.95	3775	20734
Jun	89.52	89.45	-0.08	89.52	89.44	3837	14608
Sep	89.10	89.06	-0.07	89.13	89.05	1846	16309

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.72	95.74	-	95.74	95.70	2806	20316
Mar	95.44	95.43	-0.04	95.44	95.41	1941	16744
Jun	95.07	95.05	-0.02	95.07	95.02	1309	8106
Sep	94.72	94.71	-0.03	94.72	94.68	220	1356

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.86	93.84	-0.02	93.86	93.80	867	7467
Mar	93.41	93.40	-0.03	93.41	93.38	578	6806
Jun	92.92	92.90	-0.03	92.92	92.87	389	3748
Sep	92.47	92.44	-0.05	92.47	92.42	304	1968

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.03	16.68	4.859	2.024	4963	5.445	21.16	497.9	405.1	23.32	4.029	2.000	4.381	3.239	314.7	2.553
Denmark	(DKr)	52.54	10	8.763	2.553	1.064	2607	2.861	11.12	261.6	212.8	12.25	2.117	1.051	2.302	1.702	165.3	1.341
France	(FFr)	59.95	11.41	10	2.913	1.214	2976	3.265	12.69	298.5	242.9	13.98	2.415	1.199	2.627	1.942	188.7	1.530
Germany	(DM)	20.58	3.917	3.433	1	0.417	1021	1.121	4.356	102.5	83.37	4.800	0.829	0.412	0.902	0.667	64.76	0.525
Ireland	(I£)	49.40	9.402	8.239	2.400	1	2452	2.690	10.45	245.9	200.1	11.52	1.990	0.988	2.164	1.600	155.4	1.261
Italy	(L)	2.015	0.384	0.336	0.098	0.041	100.	0.110	0.426	10.03	8.162	0.470	0.081	0.040	0.088	0.065	6.340	0.051
Netherlands	(Fl)	18.37	3.496	3.063	0.892	0.372	911.5	1	3.887	91.44	74.39	4.284	0.740	0.367	0.805	0.595	57.79	0.469
Norway	(NKr)	47.25	8.993	7.881	2.296	0.957	2345	2.573	10	235.3	191.4	11.02	1.904	0.945	2.070	1.530	148.7	1.206
Portugal	(Es)	20.08	3.823	3.350	0.976	0.407	996.8	1.094	4.251	100.	81.36	4.685	0.809	0.402	0.880	0.650	63.20	0.513
Spain	(Pta)	24.69	4.699	4.118	1.200	0.500	1225	1.344	5.225	122.9	100.	5.758	0.995	0.494	1.081	0.800	77.68	0.630
Sweden	(SKr)	42.87	8.160	7.151	2.083	0.868	2128	2.334	9.074	213.5	173.7	10	1.727	0.858	1.878	1.389	134.9	1.094
Switzerland	(SFr)	24.82	4.724	4.140	1.206	0.502	1232	1.352	5.253	123.6	100.5	5.789	1	0.497	1.087	0.804	78.10	0.634
UK	(£)	49.99	9.515	8.338	2.429	1.012	2481	2.722	10.58	248.9	202.5	11.66	2.014	1	2.190	1.619	157.3	1.276
Canada	(C$)	22.83	4.345	3.807	1.109	0.462	1133	1.243	4.831	113.7	92.47	5.324	0.920	0.457	1	0.739	71.83	0.583
US	($)	30.88	5.877	5.150	1.500	0.625	1532	1.681	6.535	153.7	125.1	7.202	1.244	0.618	1.353	1	97.16	0.788
Japan	(Y)	31.78	6.049	5.301	1.544	0.643	1577	1.730	6.726	158.2	128.7	7.413	1.280	0.636	1.392	1.029	100.	0.811
Ecu		39.18	7.457	6.534	1.904	0.793	1944	2.133	8.292	195.1	158.7	9.138	1.578	0.784	1.716	1.268	123.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6656	0.6658	+0.0001	0.6688	0.6637	30,097	91,311
Mar	0.6686	0.6667	-006	0.6695	0.6665	734	4,235
Jun	0.6698	0.6698	+0.0017	0.6688	0.6686	51	579

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.0279	1.0343	+0.0065	1.0380	1.0272	14,177	56,112
Mar	1.0405	1.0425	+0.0066	1.0475	1.0405	287	6,281
Jun	1.0500	1.0535	+0.0085	1.0540	1.0500	126	450

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8069	0.8043	+0.0010	0.8074	0.8016	16,336	41,969
Mar	0.8103	0.8070	+0.0014	0.8105	0.8070	154	1,101
Jun	0.8133	0.8111	+0.0035	0.8133	0.8110	89	126

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6120	1.6180	+0.0072	1.6200	1.6112	7,894	43,822
Mar	1.6168	1.6160	+0.0068	1.6180	1.6150	119	489
Jun	-	1.6110	-	1.6140	-	1	8

UK INTEREST RATES

LONDON MONEY RATES

Oct 19	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 5	5 11/16 - 5⅜	5 9/16 - 5 7/16	6 - 5⅞	6 7/16 - 6 5/16	7¼ - 7⅛
Sterling CDs	-	-	5 13/16 - 5 11/16	5 13/16 - 5¾	6 5/16 - 6 3/16	7⅛ - 7
Treasury Bills	-	-	5⅜ - 5 5/16	5⅝ - 5 9/16	-	-
Bank Bills	-	-	5 13/16 - 5⅝	6¼ - 6 11/16	6 1/16 - 5 15/16	-
Local authority deps.	5¼ - 5⅛	5¼ - 5⅛	5 9/16 - 5 7/16	6¼ - 5⅝	6 5/16 - 6 3/16	7 1/16 - 6 15/16
Discount Market deps	7 - 5¼	5⅜ - 5½	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¼	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ¼pc.
Ave. tender rate of discount 5.4214pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1994. Agreed rate for period Oct 26, 1994 to Nov 25, 1994, Schemes II & III 7.05pc. Reference rate for period Sep 1, 1994 to Sep 30, 1994, Schemes IV & V 5.735pc. Finance House Base Rate 6pc from Oct 1, 1994

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.52	93.52	-0.02	93.54	93.47	25254	145660
Mar	92.72	92.71	-0.04	92.73	92.66	29495	73647
Jun	92.15	92.13	-0.05	92.15	92.09	9522	63517
Sep	91.71	91.72	-0.04	91.74	91.67	4308	51014

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.20	0.08	0.11	0.18	0.87	1.48
9375	0.08	0.04	0.08	0.31	1.08	1.70
9400	0.02	0.01	0.05	0.50	1.30	1.92

Est. vol. total, Calls 6051 Puts 6818. Previous day's open int., Calls 341084 Puts 183010

EMS EUROPEAN CURRENCY UNIT RATES

Oct 19	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14459	-0.00013	-2.37	5.85	-
Belgium	40.2123	39.3881	+0.0041	-2.05	5.50	15
Germany	1.94964	1.91411	+0.00015	-1.82	5.28	-
Ireland	0.808628	0.797496	-0.001146	-1.38	4.78	9
France	6.53883	6.56712	+0.0009	0.43	2.89	-4
Denmark	7.43679	7.49561	-0.00426	0.79	2.53	-5
Portugal	192.854	196.089	+0.231	1.68	1.63	-11
Spain	154.250	159.401	+0.348	3.34	0.00	-23
NON ERM MEMBERS						
Greece	264.513	293.777	+0.314	11.06	-6.95	-
Italy	1793.19	1955.14	+2.53	9.03	-5.22	-
UK	0.786749	0.787495	-0.001655	0.09	3.24	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	PUTS Nov	PUTS Dec	PUTS Jan
1.550	6.81	7.05	7.26	0.02	0.32	0.63
1.575	4.49	5.00	5.34	0.13	0.76	1.18
1.600	2.53	3.27	3.72	0.61	1.50	2.02
1.625	1.11	1.99	2.48	1.67	2.59	3.15
1.650	0.37	1.10	1.54	3.38	4.18	4.68
1.675	0.07	0.54	0.90	5.57	6.10	6.51

Previous day's vol., Calls 16,724 Puts 14,451 . Prev. day's open int., Calls 415,588 Puts 361,884

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.09	94.09	-0.03	94.11	94.08	59,608	447,514
Mar	93.70	93.67	-0.06	93.71	93.66	65,507	402,660
Jun	93.31	93.26	-0.06	93.31	93.25	37,830	300,628

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.66	94.68	-0.01	94.68	94.66	713	18,049
Mar	94.21	94.21	-0.04	94.22	94.21	520	9,222
Jun	93.79	93.79	-0.06	93.79	93.79	457	3,816

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	CALLS Dec	CALLS Jan	CALLS Mar	PUTS Nov	PUTS Dec	PUTS Jan	PUTS Mar
9475	0.10	0.14	0.10	0.13	0.05	0.09	0.35	0.38
9500	0.02	0.04	0.05	0.06	0.22	0.24	0.55	0.56
9525	0	0.01	0.02	0.03	0.45	0.46	0.77	0.78

Est. vol. total, Calls 7793 Puts 5775. Previous day's open int., Calls 191504 Puts 174949

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9550	0.27	0.20	0.13	0.03	0.27	0.58
9575	0.09	0.10	0.07	0.10	0.42	0.77
9600	0.02	0.05	0.03	0.28	0.62	0.98

Est. vol. total, Calls 20 Puts 0. Previous day's open int., Calls 1870 Puts 845

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs.	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk.	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai.	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	8		
Crédit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

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* In administration

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 19 / Sch)

BELGIUM/LUXEMBOURG (Oct 19 / Frs.)

DENMARK (Oct 19 / Kr)

FINLAND (Oct 19 / Mks)

FRANCE (Oct 19 / Frs.)

GERMANY (Oct 19 / Dm.)

ITALY (Oct 19 / Lire)

NETHERLANDS (Oct 19 / Fls.)

NORWAY (Oct 19 / Kroner)

SPAIN (Oct 19 / Pta.)

SWEDEN (Oct 19 / Kronor)

SWITZERLAND (Oct 19 / Frs.)

PACIFIC

JAPAN (Oct 19 / Yen)

AUSTRALIA (Oct 19 / Aust$)

HONG KONG (Oct 19 / H.K.$)

MALAYSIA (Oct 19 / MYR)

SINGAPORE (Oct 19 / S$)

NORTH AMERICA

CANADA

TORONTO (Oct 19 / Can $)

4 pm close

MONTREAL (Oct 19 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Oct 19 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, October 19, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Ind	4.2m	355	+1	Tosoh	2.9m	426	-2
Mitsubishi Oil	3.7m	1,100	+20	NKK	2.8m	292	-2
Nippon Steel	3.6m	387	-3	Pacific Metals	2.7m	488	-2
Konica	3.2m	746	+6	Maruha	2.7m	442	+17
Isuzu Motors	3.0m	525	-3	Kawasaki Steel	2.5m	443	-4

INDICES

US INDICES

Dow Jones	Oct 18	Oct 17	Oct 14	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3917.54	3923.93	3910.47	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	96.24	96.34	96.45	105.61 (21/1)	95.91 (7/10)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1500.21	1495.78	1496.48	1862.29 (2/2)	1438.50 (6/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	181.32	181.98	182.64	227.66 (3/1)	175.85 (20/9)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3945.48 (3949.84) Low 3892.64 (3883.22) (Theoretical§)
Day's high 3927.97 (3933.89) Low 3903.75 (3901.73) (Actual§)

Standard and Poors	Oct 18	Oct 17	Oct 14	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	467.88	468.96	469.10	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	555.64	557.26	558.86	569.83 (15/8)	510.05 (21/4)	569.83 (15/8/94)	3.82 (21/6/32)
Financial	43.38	43.36	43.42	46.94 (14/6)	41.38 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	257.25	257.86	257.98	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	458.72	458.78	458.50	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	764.81	765.78	767.08	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Oct 14	Oct 7	Sep 30	Year ago
Dow Jones Ind. Div. Yield	2.71	2.79	2.76	2.81
	Oct 12	Oct 5	Sep 28	Year ago
S & P Ind. Div. yield	2.37	2.43	2.39	2.47
S & P Ind. P/E ratio	20.91	20.33	20.78	28.00

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	468.45	467.55	-0.95	468.50	466.60	64,616	212,742
Mar	470.20	470.40	-1.15	470.70	469.70	1,486	10,061
Jun	-	474.10	-	-	473.80	171	2,694

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ CAC-40 STOCK INDEX FUTURES (MATIF)

4 pm close October 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅞	12¼	AAR	0.48	3.8	21	166	12¾	12½	12¾	+⅛
17¼	12⅝	A L Labs A x	0.18	1.1	38	166	16⅝	16⅛	16⅝	+⅜
79⅞	57⅝	AMP	1.68	2.2	27	2089	78¾	77¼	78⅛	
72¾	48⅛	AMR			94	14570	54⅝	51¾	53⅞	+1⅞
5	3⅜	ARX			12	85	3⅞	3¾	3¾	-⅛
56⅛	38⅝	ASA	2.00	4.0	33	1219	50¾	49⅝	50	
32	25⅜	AbbtL x	0.76	2.4	18	10782	31⅞	30¾	31½	+⅜
15¼	11⅞	Abitibi Pr	0.50	3.7	10	11	13½	13½	13½	-⅛
23⅝	17¾	ABM Ind x	0.52	2.6		13	20¼	20⅛	20⅛	+⅛
18⅞	11⅞	Acpancain			32	1577	u17½	16⅞	17½	+1⅛
31	22⅝	ACE Ltd	0.44	1.9	29	130	23⅞	23⅜	23⅜	-½
12½	9¼	ACM Gvt In	1.09	11.6		306	9½	9⅜	9½	+⅛
10⅛	7	ACM GvOpp	0.80	11.2		44	7⅛	d7	7⅛	+⅛
10⅝	7	ACM Gvt Sp	0.96	13.5		225	7⅛	d7	7⅛	+⅛
12	8⅜	ACM Gvt Se	1.09	12.9		315	8½	d8⅜	8½	
11¾	7⅞	ACM Man	1.09	13.1		478	8⅝	8	8¼	+⅛
9¼	8	ACM Managd	0.72	8.7		20	8¼	8⅛	8¼	
15½	8¾	AcmeCtr	0.44	3.3	16	8	13½	13⅜	13⅜	-⅛
9⅞	6½	Acme Elect			8	301	u10⅛	9½	10⅛	+¾
28¾	23	Acordia	0.60	2.2	14	8	27¾	27⅝	27¾	+¼
13¾	5¾	Actava	0.36	3.8	2	302	9⅝	9⅜	9½	-⅛
17	11¾	Acuson			128	351	16¾	16¼	16¾	+½
18⅞	16½	Adams Expr	0.48	2.8	0	76	17⅛	17	17⅛	
64	46½	Ad Micro	3.00	5.8		90	52¼	51½	51⅝	-⅛
31¾	18¾	AdvMic	3.00	13.0	10	10077	23⅝	23	23⅛	-¾
6⅞	5	Advest Grp	0.16	3.1	8	559	5⅛	5⅛	5⅛	-⅛
20	15	Advo Inc	0.10	0.6	117	22	17⅝	17⅜	17⅝	+⅛
62	49⅞	Aegon ADR	1.47	2.4	13	92	u62⅛	61	61⅝	+⅜

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

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- H -

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- I -

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- J -

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- K -

[illegible]

- L -

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- M -

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- N -

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- O -

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- P - Q -

[illegible]

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- S -

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NYSE COMPOSITE PRICES

4 pm close October 19

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
Continued from previous page										
45	37¾	StPaul	1.50	3.6	4	854	42¾	42⅛	42⅛	-¾
9⅜	5	Salant Crp			6	55	5½	5⅜	5⅜	
49⅞	31¾	Sallie Mae	1.40	4.4	6	2205	32	d31⅝	31¾	-¾
13⅝	11⅞	Salomon Br	0.32	2.8		632	12⅞	12¼	12⅜	
52¾	37⅝	Salomn	0.64	1.7	5	2679	38⅞	38¼	38⅝	+¼
25	17½	SnDgGE	1.52	7.7	10	645	19⅞	19½	19⅝	
10	7½	SantaFeERs	0.16	1.8	9	284	9	8¾	9	+⅛
17⅞	13½	SFeGd				8485	15⅝	15¼	15¾	+⅛
40	31½	SantaFePac	2.80	8.5	15	91	33⅝	33	33	-¾
39¾	12⅞	SaoFeP	0.10	0.7	8	4576	14⅝	14½	14¾	+⅛
38	19⅜	SaraLee	0.64	2.8	15	5023	23⅛	22⅞	23	
50⅛	42⅛	Scana Corp	2.82	6.4	11	873	43⅞	43½	43¾	
20½	12½	Scecrp	1.00	7.4	9	7736	13½	13¼	13½	+¼
43½	31¾	ScherarRP			32	200	42⅝	42¼	42⅝	
72½	54½	SchrPl	2.04	2.9	16	5007	71⅛	70¾	70¾	+⅛
63	50¾	Schlmb	1.20	2.2	22	5972	55¼	54½	54¾	-¾
33⅞	23¾	SchwabrCr	0.28	0.9	15	1093	32½	31¾	32¼	-⅛
10¾	6⅛	Schwitzer			27	173	9⅞	9½	9¾	+¾
22⅝	12⅞	SciAtl	0.05	0.3	42	990	21⅛	20⅞	21⅛	-⅛
18⅞	13	Scotman	0.10	0.6	15	368	16	15¾	16	+⅛
66⅝	37¼	ScottP	0.80	1.3	19	2865	84	82⅜	82⅜	-1½
26⅝	16⅝	ScuddrNAsF	0.21	0.8		166	25⅛	24⅞	25	+¼
12⅝	9⅛	ScuddrNEuF	0.16	1.6		120	9⅞	9¾	9⅞	+⅛
18¼	13½	SeaCnB	0.70	4.3	8	5	16¼	16	16¼	
16½	14⅞	SeaC1.4625	1.46	9.5		49	15⅞	15⅜	15⅜	-¼
32⅝	26¼	Seagrm	0.60	1.9	39	2452	31⅛	30⅝	31	+¼
29¾	22⅝	Seagull En			29	1954	22⅞	22⅝	22¾	-⅛
36¼	26⅝	Sealed Air			24	441	33⅛	32¼	32⅞	+⅝

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Price data supplied by Telekurs

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NASDAQ NATIONAL MARKET

4 pm close October 19

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX COMPOSITE PRICES

4 pm close October 19

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

FINANCIAL TIMES Thursday October 20 1994

AMERICA

Dow in steady climb on earnings reports

Wall Street

US stocks were climbing sharply early yesterday afternoon as more strong earnings news started to overshadow fresh weakness in the bond market, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 15.47 higher at 3,933.01, after showing a modest decline during the morning. The more broadly based Standard & Poor's 500 was 2.14 ahead at 469.80.

On the New York SE, declining issues outnumbered advances by 1,054 to 768 by early afternoon after moderate volume of 179m shares.

The Nasdaq composite was also strong, gaining 5.82 at 770.63, while the American SE composite was up a scant 0.71 at 457.43.

Early on, the market's attention was focused on August trade data released by the Commerce Department and its effect on the bond and currency markets.

The report produced no big surprises. The US deficit in goods and services came in at $9.7bn, just about as economists had forecast. The figure represented a narrowing of the previous month's gap, revised up to $11.19bn.

But a jump in Japanese imports was a disappointment. With the US trade deficit with Japan at $5.8bn, against $5.26bn a year earlier, the dollar lost a little more ground against the yen. The decline in turn reinforced a sour mood in the Treasury market, where a weaker greenback often diminishes the appeal of bonds.

Against this backdrop, most stocks failed to make much progress during the morning. Just before 1 pm, however, a broad range of issues began to rally, stirred by the fresh batch of encouraging quarterly results on offer.

One of the big winners was Digital Equipment, up $1¼ to $30⅝. It narrowed its fiscal first-quarter loss to 98 cents a share, from $1.14 a year earlier. The results were better than a $1.32 deficit forecast by analysts.

Compaq Computer was $1⅛ ahead at $36⅞ on brisk trading of 4m shares by early afternoon. The stock improved even though the company's third-quarter earnings were spot on expectations and its gross margins receded.

In pharmaceuticals, Johnson & Johnson climbed $1⅛ to $54¼ on news that it had beaten the consensus estimate by posting third-quarter profits of 82 cents a share. Schering-Plough appreciated $⅝ to $71¼ on favourable results.

McDonnell-Douglas, the aerospace concern, jumped $3¼ to $126½ after posting earnings per share of $4.07, about 17 per cent better than the level predicted by analysts. Its main US rival, Boeing, moved forward $⅝ to $43⅞.

A host of telecommunications companies released their results, but none of their stocks moved very much as a result. Bell Atlantic was up $⅝ at $51½, Pacific Telesis added $⅛ at $30⅝, and MCI was marked down $⅞ to $24⅞ in Nasdaq trading.

In financial services, North American Mortgage plummeted $7 to $19. Mabon Securities lowered its rating on the stock after the company revealed a loss of 27 cents a share, against net income of 83 cents a year ago.

Elsewhere on the Nasdaq, Amgen led technology stocks in a solid advance. The biotechnology concern rose $4 to $58 on its forecast of double-digit growth in sales and income next year.

Canada

Toronto was foundering at cautious midday dealings as industrial products and conglomerates came under pressure.

The TSE 300 composite index fell 14.89 to 4,301.07 at noon in volume of 23.63m shares.

Conglomerates dropped 1.2 per cent as Canadian Pacific dipped C$⅜ to C$21⅞ in fairly busy trading.

The base metals sector rose as metals prices bounded to higher levels. Aluminium is at a new four-year high, while nickel is at its highest level for two years.

Brazil

Shares dropped 3.2 per cent in light midday trade on the São Paulo bourse after a report that the government could soon adopt restrictions on foreign funds entering Brazil.

The Bovespa index was down 1,569 at 47,527 by 1 pm in turnover of R$138m ($161.2m).

Analysts said that liquidity was short since most foreign investors were absent from the market, awaiting a clear definition on whether the government would restrict the inflow of money.

Telebras preferred dropped 3.7 per cent to R$41.60 and Vale do Rio Doce preferred fell 2.1 per cent to R$166.50.

S African golds overcome early losses

Gold shares overcame early losses as bullion pushed higher, while industrials extended gains in steady trade in further response to recent good company results.

Golds, which started weaker on bullion price weakness and firm financial and commercial rands, retraced losses by the close as the financial rand slipped and the gold price recovered to $391 an ounce.

The overall index rose 9 to 5,691 and industrials added 37 at 6,505, while golds finished 3 firmer at 2,325 after an early fall to 2,291.

De Beers was 50 cents down at R99.50 and Anglos unchanged at R238, while Minorco slipped 50 cents to R106.25. All were off intraday lows.

Investec eased after a strong results-inspired advance on Tuesday, retreating R1 to R64.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Oct. 14 1994	% Change over week	% Change on Dec '93	Local currency terms: Oct. 14 1994	% Change over week	% Change on Dec '93
Latin America	(208)	766.45	+3.6	+17.8			
Argentina	(25)	943.77	+2.8	-5.1	578,076.85	+2.8	-5.3
Brazil	(57)	423.34	+2.7	+81.9	1,309,225,639	+0.7	+1,188.3
Chile	(25)	831.32	+6.4	+50.7	1,372.57	+5.9	+44.0
Colombia[1]	(11)	866.43	+0.3	+34.4	1,281.23	+0.0	+38.2
Mexico	(67)	987.17	+4.4	-1.9	1,454.24	+4.3	+7.8
Peru[2]	(11)	189.63	+4.0	+56.8	258.81	+3.3	+62.7
Venezuela[3]	(12)	562.79	+0.6	-4.9	2,194.70	+0.4	+54.4
Asia	(557)	280.38	+1.3	-3.7			
China[4]	(18)	104.77	+3.3	-29.8	112.93	+3.3	-31.2
South Korea[5]	(156)	155.40	+3.6	+31.5	163.13	+3.5	+30.0
Philippines	(19)	306.03	+0.0	-10.1	377.73	-0.2	-15.0
Taiwan, China[6]	(90)	151.06	-0.9	+11.7	148.34	-0.9	+10.9
India[7]	(76)	136.35	-1.0	+17.1	151.96	-1.0	+18.0
Indonesia[8]	(37)	110.75	-1.3	-11.2	130.75	-1.3	-8.2
Malaysia	(104)	312.03	+1.7	-8.0	294.95	+1.5	-12.5
Pakistan[9]	(15)	423.26	-0.2	+9.1	588.56	-0.2	+11.4
Sri Lanka[10]	(5)	192.92	-5.6	+8.8	205.86	-5.8	+7.8
Thailand	(55)	440.91	+3.2	-7.7	437.32	+3.0	-9.5
Euro/Mid East	(125)	120.27	+0.3	-29.0			
Greece	(25)	225.06	-2.0	-1.2	355.52	-2.9	-7.5
Hungary[11]	(5)	178.50	-0.1	+7.1	229.27	-1.0	+13.6
Jordan	(13)	153.21	-0.2	-7.5	225.13	-0.2	-6.0
Poland[12]	(12)	571.56	-7.0	-30.1	829.90	-7.2	-24.8
Portugal	(25)	125.15	+1.6	+10.0	133.94	+0.6	-3.0
Turkey[13]	(40)	120.51	+1.9	-43.3	1,980.84	+3.6	+36.2
Zimbabwe[14]	(5)	263.42	+0.0	+30.3	322.69	-0.2	+51.1
Composite	(890)	369.89	+2.3	+4.0			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

The listing this week in New York and locally of Indosat, the Indonesian telecommunications company, has given a boost to the Jakarta market, which has been languishing so far this year a long way behind its regional competitors.

The global offering of shares in the group, the largest in Asia, raised about $1bn. Brokers say this should provide a much needed stimulus to the equity market and encourage the return of foreign investors. Yesterday Indosat made a successful debut on the local exchange, initially gaining nearly 30 per cent on its IPO price of Rp7,000 before falling back on profit-taking to close at Rp8,475.

One difficulty facing the market's forward progress remains the limit on the foreign ownership of companies, currently at 49 per cent, which is not, at least in the short term, to be lifted.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY OCTOBER 18 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY OCTOBER 17 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	168.43	-0.3	154.56	104.01	131.38	151.94	-0.5	3.65	168.99	155.86	104.53	132.10	152.77	189.15	149.36	155.21
Austria (16)	187.41	0.0	171.38	115.72	146.17	146.13	-0.2	1.10	187.45	172.89	115.94	146.53	146.48	198.89	167.48	184.47
Belgium (37)	173.00	0.5	158.77	106.82	134.94	131.77	0.3	4.18	172.12	158.75	106.46	134.55	131.31	177.04	149.33	152.91
Canada (103)	136.58	-0.3	125.34	84.33	106.53	134.02	-0.3	2.51	137.01	126.37	84.75	107.10	134.46	145.31	120.54	129.97
Denmark (33)	261.51	0.5	239.99	161.48	203.98	209.16	0.3	1.42	260.14	239.93	160.90	203.35	208.62	275.79	230.27	235.96
Finland (24)	195.86	-0.7	179.74	120.94	152.77	190.19	-0.8	0.74	197.13	181.82	121.93	154.10	191.72	197.13	116.85	122.49
France (101)	170.96	-0.1	156.90	105.57	133.35	138.02	-0.4	3.15	171.20	157.90	105.89	133.83	138.63	185.37	159.34	166.55
Germany (58)	146.73	-0.2	134.66	90.60	114.44	114.44	-0.4	1.81	147.05	135.62	90.95	114.95	114.95	150.40	128.57	135.79
Hong Kong (55)	382.31	-0.4	350.86	236.07	298.21	379.28	-0.4	3.28	383.84	354.02	237.41	300.05	380.80	508.56	341.29	357.09
Ireland (14)	211.52	-1.0	194.12	130.61	164.99	188.67	-1.5	3.39	213.65	197.06	132.15	167.02	189.54	216.80	171.66	172.24
Italy (59)	78.89	-0.8	72.40	48.71	61.53	90.19	-1.2	1.74	79.50	73.32	49.17	62.15	91.31	97.78	57.88	72.09
Japan (468)	162.70	0.2	149.31	100.46	126.90	100.46	0.0	0.76	162.37	149.76	100.43	126.93	100.43	170.10	124.54	152.80
Malaysia (97)	555.98	-1.1	510.24	343.31	433.66	547.24	-1.1	1.53	562.09	518.43	347.67	439.40	553.16	621.63	430.71	447.04
Mexico (18)	2282.38	-0.8	2094.59	1409.32	1780.23	8534.42	-0.8	1.20	2302.03	2123.19	1423.85	1799.49	8600.30	2647.08	1656.28	1779.90
Netherland (19)	218.62	-0.5	200.63	134.99	170.52	167.74	-0.7	3.44	219.75	202.68	135.92	171.78	169.00	219.75	187.01	195.17
New Zealand (14)	73.44	-0.7	67.40	45.35	57.29	63.77	-0.8	3.81	73.94	68.20	45.73	57.80	64.26	77.59	59.22	64.82
Norway (23)	208.62	-0.8	191.45	128.82	162.72	185.02	-1.0	1.79	210.24	193.90	130.04	164.34	186.85	211.74	165.62	184.86
Singapore (44)	395.83	-0.3	363.27	244.42	308.75	268.42	-0.4	1.57	396.92	366.09	245.51	310.28	269.43	396.92	294.66	332.54
South Africa (59)	333.45	2.2	306.01	205.90	260.08	291.16	0.5	2.20	326.35	300.99	201.86	255.10	289.74	333.45	202.72	214.18
Spain (39)	143.12	-1.3	131.34	88.37	111.63	135.21	-1.5	4.10	144.99	133.73	89.68	113.34	137.33	155.79	128.88	144.44
Sweden (36)	238.58	0.0	218.95	147.32	186.09	254.42	-0.4	1.57	238.56	220.03	147.56	186.48	255.35	238.58	175.63	208.91
Switzerland (47)	167.55	-0.8	153.77	103.46	130.69	129.48	-1.3	1.88	168.95	155.83	104.50	132.07	131.20	176.56	143.64	148.18
United Kingdom (204)	202.67	-0.6	185.99	125.14	158.08	185.99	-1.1	4.09	203.79	187.96	126.05	159.31	187.96	214.96	181.11	190.55
USA (515)	191.01	-0.2	175.30	117.95	148.99	191.01	-0.2	2.85	191.39	176.52	118.38	149.61	191.39	196.04	178.95	191.05
EUROPE (709)	174.87	-0.5	160.48	107.98	136.40	150.34	-0.8	3.09	175.67	162.02	108.66	137.32	151.60	178.58	154.79	162.26
Nordic (116)	232.05	-0.1	212.95	143.28	180.99	211.03	-0.3	1.40	232.16	214.13	143.60	181.48	211.78	232.16	173.19	194.53
Pacific Basin (747)	171.85	0.1	157.71	106.11	134.04	111.20	-0.1	1.09	171.70	158.36	106.20	134.22	111.27	178.86	134.79	160.16
Euro-Pacific (1456)	173.00	-0.1	158.77	106.82	134.94	126.81	-0.4	1.94	173.25	159.79	107.16	135.43	127.42	175.14	143.88	160.91
North America (618)	187.63	-0.2	172.19	115.86	146.35	187.08	-0.2	2.83	188.01	173.41	116.29	146.97	187.46	192.73	175.67	187.27
Europe Ex. UK (505)	156.19	-0.4	143.34	96.45	121.83	129.47	-0.7	2.49	156.81	144.63	96.99	122.58	130.39	158.12	135.94	143.77
Pacific Ex. Japan (279)	261.16	-0.5	239.68	161.27	203.71	232.17	-0.6	2.82	262.55	242.16	162.40	205.24	233.56	296.21	230.10	231.51
World Ex. US (1636)	174.98	-0.1	160.58	108.05	136.48	130.75	-0.4	1.95	175.18	161.57	108.35	136.94	131.25	176.65	145.58	161.45
World Ex. UK (1947)	177.00	-0.1	162.43	109.29	138.05	145.62	-0.2	2.07	177.17	163.41	109.58	138.49	145.96	178.59	155.96	168.35
World Ex. So. Af. (2092)	178.26	-0.2	163.60	110.07	139.04	148.25	-0.3	2.28	178.57	164.70	110.45	139.59	148.73	180.03	158.54	170.12
World Ex. Japan (1683)	190.14	-0.3	174.49	117.41	148.31	177.97	-0.5	2.89	190.68	175.87	117.94	149.06	178.60	195.20	176.34	181.49
The World Index (2151)	179.26	-0.1	164.51	110.69	139.82	149.30	-0.3	2.26	179.52	165.57	111.03	140.33	149.77	180.90	158.85	170.31

Latest prices were unavailable for this edition.

EUROPE

Frankfurt modifies its sector strategy

The dollar, the main depressant for bourses this week, traded below DM1.50 again, early in New York. The mood on the Continent was not improved by ambiguities perceived in the US August trade figures, and their effect on bond markets, *writes Our Markets Staff.*

FRANKFURT rotated its sector strategy by half a notch, and engineers took more punishment as the Dax index, 33.60 lower at 2,051.16 on the session, ended 11.45 down at an Ibis-indicated 2,058.13 after steadying in the post-bourse.

MAN, which builds trucks as part of its range, dropped DM9 to DM405; Mannesmann, which brings in steel and mobile telephone prospects, fell another DM11 to DM378; and Linde, a leader in lift trucks, shed DM20 to DM858.

All three, reflecting the switch to cyclicals, had been above-average performers as blue chips fell by 11.2 per cent in the first nine months of this year. But brokers said that the lower dollar would affect export margins, and that there was a large sell order in Mannesmann.

Turnover rose from DM6.3bn to DM6.6bn. Among second-liners the window frame manufacturer Weru plummeted by DM225 or nearly 20 per cent to DM905: Bank Julius Bär and Barclays de Zoete Wedd cut their earnings forecasts after Weru scaled down its sales growth expectations and said that 1994 profits would not match those of the previous year.

PARIS fell back during the afternoon under pressure from futures, and the CAC-40 index, having seen a high of 1,901, ended off 22.29 or 1.2 per cent at 1,876.31.

There was plenty of corporate news to interest investors.

Bouygues, the construction group, lost a further 3 per cent to FFr532 following a 4 per cent fall on Tuesday, after making a forecast of virtually unchanged 1994 sales figures and announcing an 18 per cent rise in first-half net profits.

The company also suffered from selling after it said that it would not sign a pledge by members of the country's building industry against using illegal payments to win contracts or orders. A spokesperson for Bouygues said that it had not signed the ethics declaration since there were already laws governing business practice.

Elf Aquitaine dipped FFr9 to FFr367 amid reports that it would make a loss on the sale of its US fertilisers division.

Thomson-CSF shed FFr4.40 to FFr144.00 after detailing a fall in first-half net profits to FFr31m, from FFr455m last year. Analysts said the figures were in line with expectations.

ZURICH was depressed by the weak dollar and losses in UBS and Roche certificates, the SMI index declining 12.7 to 2,529.8 in what was also seen as a continuing consolidation after last week's rally.

Roche certificates fell SFr30 to SFr5,650, extending the week's losses, which followed downgraded earnings forecasts from a number of analysts after Monday's nine-month sales figures. However, James Capel, which did not alter its forecasts, commented that while sales growth was slowing, Roche had plenty of scope to reduce costs, most notably in pharma research and development, and this was increasingly being emphasised as a component of profits growth.

UBS bearers declined SFr19 to SFr1,256 and the registered shares were SFr2 lower at SFr306. Comments by the board chairman that UBS would not abandon its plan to create a single bearer class, even if the motion were defeated at the November 22 egm, prompted concerns about a long legal battle ahead with BK Vision, which retreated SFr30 to SFr1,405.

Among dollar earners, Nestlé fell to a low of SFr1,167 before erasing some of the loss to finish SFr5 easier at SFr1,179.

MILAN continued lower, with investors still waiting for the political situation to become clearer, and for confirmation that the 1995 budget would be passed, largely intact.

The Comit index shed 5.06 to 621.60, a level last seen in late January, and 23.9 per cent below April's peak during the euphoria which followed Mr Silvio Berlusconi's general election success.

Blue chips were broadly lower, Fiat dipping L149 to L6,051, Olivetti L45 to L1,813 and Telecom Italia L87 to L3,985. Pirelli contained its loss to L6 at L2,210 after its sharp falls of the previous two sessions: Seaq International in London said yesterday that Monday's exceptionally large volume of 57m shares was the result of technical trading involving repurchase transactions. Against the trend, Gaic continued to rise, adding L30 at L801 following Monday's comments by Ferruzzi's chairman about the future treatment of its Gaic stake. Ferruzzi gave up L33 at L1,270.

AMSTERDAM was broadly neutral ahead of tomorrow's options expiry, and the AEX index finished 1.49 off at 404.01.

Weakness in bonds followed through into the financial sector during the afternoon, with ING, for example, down Fl 1.00 at Fl 78.00.

MADRID produced an intraday bounce of about 1¼ per cent from its day's lows, the general index closing only 0.16 down at 296.53 after early falls on debt market weakness.

ISTANBUL, beset by inflation and a severe underperformer in dollar terms this year, saw its domestic index drop 924.27 or 3.6 per cent to 24,894.23 as liquid funds stayed away from the equity market.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

Oct 19 Hourly changes	Open	11.00	11.30	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1329.76	1330.03	1329.13	1325.76	1321.67	1320.41	1320.95	1322.21
FT-SE Eurotrack 200	1386.04	1386.98	1386.35	1383.87	1378.89	1379.23	1379.05	1379.60

	Oct 18	Oct 17	Oct 14	Oct 13	Oct 12
FT-SE Eurotrack 100	1333.52	1343.00	1350.17	1351.18	1339.83
FT-SE Eurotrack 200	1389.14	1400.87	1404.65	1412.25	1392.70

Base 1000 (26/10/90): High/day: 100 - 1330.82; 200 - 1388.40 Low/day: 100 - 1319.52 200 - 1375.88 | Partial

ASIA PACIFIC

Nikkei weakens on currency considerations

Tokyo

Worries about the yen's continued strength depressed activity, and share prices were hit by arbitrage selling and small-lot, corporate profit-taking, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average ended 123.53 down at 19,868.87, after a morning high of 20,023.40, and a low of 19,863.27 in the last half-hour of trading as dealers adjusted positions and corporate investors took profits.

Most domestic investors remained inactive due to currency fluctuations, while foreigners, who had been buying commodity and basic material related stocks, also held the sidelines. Volume totalled 230m shares, against 255m.

The Topix index of all first section stocks receded 6.18 to 1,580.47 and the Nikkei 300 dipped 1.15 to 288.94. Losers led gainers by 677 to 297, with 194 issues unchanged. In London the ISE/Nikkei 50 index eased 3.19 to 1,292.71.

The yen fluctuated around the Y97 level against the dollar, in spite of heavy buying of the latter by the Bank of Japan. However, some analysts think the yen will ease following the US elections in November. Credit Suisse Japan expects the dollar to rise after a rate increase by the US Federal Reserve, and expects dollar selling by Japanese exporters to ease in the near term.

Export-oriented high-technology stocks lost ground, while speculative favourites were traded actively. Hitachi dipped Y16 to Y994 and Sony lost Y10 at Y5,870. Steels were also hurt by profit-taking. Nippon Steel slipped Y3 to Y387 and Kawasaki Steel Y4 to Y443.

Sega Enterprises, the video game maker, fell a further Y50 to Y4,900. Traders said the company's price cut for an electronic game last week discouraged investors, prompting them to sell short.

Nippon Kayaku plunged Y67 to Y710 on reports of problems with its cancer drug. Chemical companies, supported by overseas investors last week, were lower on profit-taking. Kureha Chemical shed Y20 to Y540.

Speculators supported Mitsubishi Oil on hopes for its oil development project in Vietnam. The stock rose Y20 to Y1,100, while Ensuiko Sugar Refining surged Y180 to Y2,570 on rumours concerning the company's development of a cancer remedy.

In Osaka, the OSE average declined 90.92 to 22,235.39 in volume of 26m shares.

Roundup

The region was still tentative, and mixed. The Pakistan stock market closed without trading in a mark of respect for Mr Aman Manai, general secretary of the Karachi Stock Exchange agents' union, who died in a car crash in Saudi Arabia.

SEOUL took profits on fears of a technical correction and the composite index fell 18.53 or 1.7 per cent to 1,094.76. Only a few construction shares and asset-play counters remained popular. Sambu Construction and Hyundai Engineering and Construction each rose Won1,300 to Won39,500 and Won47,500 respectively.

HONG KONG fell on the weakness of the US dollar and on fears that the Chinese economy might be out of control. The Hang Seng index closed 98.51 down at 9,320.06 in provisional turnover of HK$2.88bn. Brokers said that investors were waiting for yesterday's US trade figures and today's government land auction.

Meanwhile, the China worries coincided oddly with a rise of 8.82 to 1,325.76 in the H-share index of Chinese stocks listed in Hong Kong, and a **SHANGHAI** A share gain of 30.40 or 4.8 per cent to 666.62. But brokers said the Shanghai rebound was strictly technical, with turnover thin at Yn1.46bn and market sentiment still weak.

TAIPEI declined 1.3 per cent on profit-taking, the weighted index losing 86.43 at 6,669.10, off a 6,817.46 high. Turnover was heavy at T$89.49bn. In **SINGAPORE**, light profit-taking left the Straits Times Industrial index 19.87 points lower at 2,364.11.

SYDNEY rose on firmer futures and late buying interest, the All Ordinaries index finishing 10.0 stronger at 2,013.4 in turnover of A$388m. Brokers said comments by Mr Bernie Fraser, the Reserve Bank governor, on interest rates and inflation had no effect on trading.

Oils were firm on recent exploration news, with Woodside up 29 cents at A$5.14 and Santos 8 cents better at A$3.94.

WELLINGTON was lifted by a 9-cent advance in Telecom, to NZ$5.38, and the NZSE-40 index closed 9.25 higher at 2,061.66 in below-average turnover of NZ$26m.

MANILA looked for third-quarter earnings prospects and the composite index finished 6.39 ahead at 3,099.34.